

Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach

PART II: A Strategic Approach

June 30, 1997

8th Quadrennial Review of Military Compensation Publications

The 8th Quadrennial Review of Military Compensation published five volumes. The primary volume contains the Executive Summary and the Executive Report. The Main Report comprises three volumes that expand upon the topics in the Executive Report and includes examples showing how the recommendations can be applied in the uniformed services. The final volume contains internal working papers that are the background for some conclusions and recommendations; they contain information not discussed in the other volumes. Shown below are the names and DTIC and NTIS numbers for each volume:

Publication Title	DTIC/NTIS Number
Rewarding, Organizing and Managing People for the 21 st Century: Time for a Strategic Approach	
• <i>The Executive Report</i>	AD – A329201
• <i>Part I: A Strategic Perspective</i>	AD – A329202
• <i>Part II: A Strategic Approach</i>	AD – A329203
• <i>Part III: Managing Change</i>	AD – A329204
• <i>Working Papers</i>	AD – A329205

To order additional copies of the 8th Quadrennial Review of Military Compensation's reports, contact:

Defense Technical Information Center
Reference and Retrieval Division (DTIC-BR)
8725 John J. Kingman Road, Suite 0944
Ft. Belvoir, VA 22060-6218
(703) 767-8274
DSN 427-8274
<http://www.dtic.mil/stinet/>

National Technical Information Service
5285 Port Royal Road
Springfield, VA 22161
(703) 487-4650
Fax (703) 321-8547
<http://www.fedworld.gov/ntis/>

*Rewarding, Organizing and Managing People for the 21st Century:
Time for a Strategic Approach
June 30, 1997*

Office of the Assistant Secretary of Defense
(Force Management Policy)
The Pentagon
Washington, DC 20301-4000

TABLE OF CONTENTS

Chapter 1 – The Impact of Environmental Change on Human Resource Management.....	1-41
<i>A Glimpse of the Dynamically Changing Environment.....</i>	<i>1</i>
<i>The Environment of the Uniformed Services.....</i>	<i>4</i>
<i>Contingency Theory</i>	<i>6</i>
<i>Contingent Systems</i>	<i>9</i>
<i>Strategic Choice Approach to Systems Contingency Theory</i>	<i>10</i>
<i>Trends in Human Resource Management.....</i>	<i>15</i>
<i>Organizational Design.....</i>	<i>15</i>
<i>Compensation Trends.....</i>	<i>23</i>
<i>Personnel Management.....</i>	<i>28</i>
<i>Summary</i>	<i>41</i>
 Chapter 2 – A Vision of Human Resource Management	 43-53
<i>Guiding Philosophy and Tangible Image</i>	<i>44</i>
<i>Making Organizational Vision and Strategy a Reality.....</i>	<i>45</i>
<i>Guiding Philosophy of Human Resource Management</i>	<i>45</i>
<i>Tangible Image of Human Resource Management</i>	<i>47</i>
<i>Working Toward the Vision.....</i>	<i>52</i>
 Chapter 3 – Human Resource Management General System Designs.....	 55-65
<i>One-size-fits-all</i>	<i>57</i>
<i>Characteristics</i>	<i>58</i>
<i>Examples</i>	<i>58</i>

<i>Tailored Flexibility</i>	59
<i>Characteristics</i>	60
<i>Examples</i>	61
<i>Each-to-its-own</i>	64
<i>Characteristics</i>	64
<i>Examples</i>	64
Chapter 4 – Designing Systems	67-74
<i>Elements and Dimensions of the Human Resource</i>	
<i>Management System</i>	67
<i>Human Resource Management Framework</i>	67
<i>Dimensions</i>	69
<i>Research on Dimensions</i>	70
<i>Resulting Set of Dimensions</i>	71
Chapter 5 – A Process for Aligning Policies	
and Practices	75-96
<i>The Design Process</i>	76
<i>Organizational Strategies for the Uniformed Services</i>	80
<i>Innovation</i>	80
<i>Quality Improvement</i>	81
<i>Customer Service</i>	82
<i>Least Cost</i>	84
<i>Military Effectiveness</i>	85
<i>Is There an Organizational Strategy in Place Today?</i>	87
<i>Role Behaviors: Transforming Strategies into Actions</i>	87
<i>Making Strategic Choices</i>	91
<i>An Example</i>	91

Chapter 6 – Human Resource Management Strategic Choice Model	97-111
<i>Purpose of the Model</i>	<i>97</i>
<i>Description of the Model</i>	<i>98</i>
<i>Basis</i>	<i>98</i>
<i>General Overview</i>	<i>99</i>
<i>Application of the Model</i>	<i>102</i>
<i>Model Applications</i>	<i>105</i>
<i>Creating Generic Human Resource Management Systems</i>	<i>106</i>
<i>Comparing Generic Human Resource Management Systems</i>	<i>107</i>
<i>Modifying Generic Human Resource Management Systems</i>	<i>110</i>
<i>Creating New Human Resource Management Systems</i>	<i>111</i>
 Chapter 7 – Generic Human Resource Management System Descriptions	 113-138
<i>Introduction</i>	<i>113</i>
<i>Descriptions of Generic Systems</i>	<i>113</i>
<i>Organizational Strategy of Innovation</i>	<i>114</i>
<i>Private Sector Examples</i>	<i>115</i>
<i>Potential DoD Applications</i>	<i>115</i>
<i>Policies and Practices.....</i>	<i>116</i>
<i>Summary</i>	<i>121</i>
<i>Organizational Strategy of Quality Improvement/</i>	
<i>Customer Service</i>	<i>122</i>
<i>Private Sector Examples</i>	<i>123</i>
<i>Potential DoD Applications</i>	<i>123</i>
<i>Policies and Practices.....</i>	<i>123</i>
<i>Summary</i>	<i>128</i>
<i>Organizational Strategy of Least Cost</i>	<i>129</i>
<i>Private Sector Examples</i>	<i>129</i>
<i>Potential DoD Applications</i>	<i>129</i>

<i>Policies and Practices</i>	130
<i>Summary</i>	135
<i>Organizational Strategy of Military Effectiveness</i>	135
<i>Policies and Practices</i>	135
<i>Summary</i>	138
Chapter 8 – An Illustrative Tailored Flexibility System	139-150
<i>Introduction</i>	139
<i>Core Requirements</i>	140
<i>Getting From Core Requirements to Core Policies and Practices</i>	141
<i>Tailored Policies and Practices</i>	144
<i>Basic Pay</i>	145
<i>Incentive Pay</i>	146
<i>Benefits</i>	147
<i>Staffing</i>	148
<i>Performance Management</i>	150
Chapter 9 – Customizing Human Resource Management Systems	151-193
<i>Customizing to Service Needs</i>	152
<i>Introduction</i>	152
<i>Military Effectiveness in General</i>	152
<i>Differences in Approach Between the Navy and the Marine Corps</i>	153
<i>Tailoring the Generic System to the Operational Communities</i>	154
<i>The Effect of Design Choice Changes on Outcomes</i>	156
<i>Summary</i>	157
<i>Customizing a System to Support the Force XXI Culture</i>	158
<i>Methodology</i>	158
<i>Resulting Customized System for Force XXI</i>	160

<i>Environmental Excursion</i>	<i>162</i>
<i>Compensation-only Excursion</i>	<i>164</i>
<i>Innovation</i>	<i>164</i>
<i>Introduction</i>	<i>164</i>
<i>Innovation in the Acquisition Community</i>	<i>166</i>
<i>Innovative Behavior in the Operational Community</i>	<i>170</i>
<i>Summary</i>	<i>171</i>
<i>Moving Members Between Human Resource Management Systems</i>	<i>171</i>
<i>Organizational Design</i>	<i>173</i>
<i>Compensation</i>	<i>174</i>
<i>Staffing</i>	<i>176</i>
<i>Performance Management</i>	<i>178</i>
<i>Development</i>	<i>179</i>
<i>Summary</i>	<i>181</i>
<i>Improving Organizational Effectiveness Through Outsourcing</i>	<i>181</i>
<i>Introduction</i>	<i>181</i>
<i>Reasons Organizations Consider Outsourcing</i>	<i>182</i>
<i>The Strategic Context for Making the Outsourcing Decision</i>	<i>183</i>
<i>The Role for Human Resource Management in Outsourcing</i>	<i>184</i>
<i>Summary</i>	<i>188</i>
<i>Pay For Performance</i>	<i>188</i>
<i>Background</i>	<i>189</i>
<i>Proposed Restructured Basic Pay Table</i>	<i>189</i>
<i>Analysis of Pay for Performance</i>	<i>190</i>
Appendices	195-222
<i>Appendix I – Visioning Method</i>	<i>197-206</i>
<i>Appendix II – DoD and Service Visions</i>	<i>207-215</i>
<i>Appendix III – Other Design Processes</i>	<i>217-222</i>

TABLE OF FIGURES AND TABLES

<i>Figure 1 – The External Context of Human Resource Management</i>	<i>3</i>
<i>Figure 2 – An Organizational System in its Environment</i>	<i>7</i>
<i>Table 1 – Descriptions of Different Organizational Forms.....</i>	<i>20</i>
<i>Table 2 – Elements of Personnel Management and Their Application to the Uniformed Services</i>	<i>29</i>
<i>Figure 3 – Personnel Management Interrelationships in the Uniformed Services</i>	<i>30</i>
<i>Figure 4 – Personnel Management Interrelationships for Career-oriented Systems</i>	<i>31</i>
<i>Figure 5 – Xerox Behavior/Performance Grid</i>	<i>40</i>
<i>Figure 6 – Guiding Philosophy for Human Resource Management ...</i>	<i>47</i>
<i>Figure 7 – Summary of the Vision for Human Resource Management for the Uniformed Services.....</i>	<i>51</i>
<i>Table 3 – Human Resource Management System General System Designs.....</i>	<i>57</i>
<i>Figure 8 – Traditional Function-oriented Integrated Framework.....</i>	<i>68</i>
<i>Table 4 – Dimensions of Human Resource Management Systems</i>	<i>72-74</i>
<i>Table 5 – A Process for Designing Human Resource Management Systems</i>	<i>77</i>
<i>Figure 9 – Relationship of Behaviors, Dimensions, and Strategic Choices</i>	<i>78</i>
<i>Figure 10 – Relationship of Strategic Choices and Practices</i>	<i>79</i>
<i>Figure 11 – A Process for Designing Human Resource Management Systems</i>	<i>79</i>
<i>Figure 12 – Range of Military Operations in the Theater Strategic Environment</i>	<i>85</i>

<i>Table 6 – Role Behaviors for Organizational Strategies.....</i>	<i>88</i>
<i>Table 7 – Role Behaviors Associated with Organizational Strategies.....</i>	<i>90</i>
<i>Table 8 – Literature Findings: Organizational Strategies and Behaviors</i>	<i>92</i>
<i>Table 9 – Literature Findings: Organizational Strategies and Policies and Practices.....</i>	<i>93</i>
<i>Table 10 – Strategic Choices for Least Cost (L) and Innovation (I)</i>	<i>95-96</i>
<i>Table 11 – Examples of Propositions</i>	<i>99</i>
<i>Figure 13 – Human Resource Management Strategic Choice Model</i>	<i>100</i>
<i>Figure 14 – An Example of Internal Relationships.....</i>	<i>101</i>
<i>Figure 15 – Design Choices for an Organizational Strategy of Innovation</i>	<i>103</i>
<i>Figure 16 – Results of Design Choices for a Strategy of Innovation</i>	<i>104</i>
<i>Figure 17 – Model Interactions</i>	<i>108</i>
<i>Figure 18 – Strategic Choice Comparisons</i>	<i>109</i>
<i>Figure 19 – Organizational Outcomes</i>	<i>109</i>
<i>Figure 20 – Strategic Choice Comparison</i>	<i>110</i>
<i>Figure 21 – Organizational Outcomes</i>	<i>111</i>
<i>Table 12 – Performance Management Assessment Structure</i>	<i>133</i>
<i>Figure 22 – Notional Organizational Context for Tailored Flexibility</i>	<i>139</i>
<i>Table 13 – Core Requirements and Underlying Attributes.....</i>	<i>142</i>
<i>Table 14 – Core Policies, Practices and Guidance</i>	<i>143</i>
<i>Table 15 – Illustrative Basic Pay Table</i>	<i>144</i>
<i>Table 16 – Illustrative Pay Table for Military Effectiveness</i>	<i>145</i>
<i>Table 17 – Illustrative Pay Table for Innovation</i>	<i>146</i>
<i>Table 18 – Illustrative Incentive Pay Characteristics Tailored to Different Organizational Strategies</i>	<i>147</i>

<i>Table 19 – Illustrative Benefits Characteristics for each Organizational Strategy</i>	<i>148</i>
<i>Table 20 – Illustrative Staffing Characteristics by Organizational Strategy</i>	<i>149</i>
<i>Table 21 – Illustrative Performance Management Characteristics by Organizational Strategy</i>	<i>150</i>
<i>Table 22 – Desired Outcomes for the Operational Communities</i>	<i>154</i>
<i>Figure 23 – Human Resource Management Strategic Choice Model (with outputs and outcomes of interest highlighted)</i>	<i>155</i>
<i>Figure 24 – Design Choices</i>	<i>157</i>
<i>Figure 25 – Outcomes</i>	<i>158</i>
<i>Figure 26 – Force XXI Analysis Inputs</i>	<i>163</i>
<i>Figure 27 – Force XXI Analysis Outcomes.....</i>	<i>164</i>
<i>Figure 28 – Comparison of Innovation and Military Effectiveness Strategies.....</i>	<i>169</i>
<i>Figure 29 – Tailored Flexibility: Organizational Design</i>	<i>174</i>
<i>Figure 30 – Tailored Flexibility: Compensation</i>	<i>176</i>
<i>Figure 31 – Tailored Flexibility: Staffing</i>	<i>178</i>
<i>Figure 32 – Tailored Flexibility: Performance Management</i>	<i>179</i>
<i>Figure 33 – Tailored Flexibility: Development</i>	<i>180</i>
<i>Figure 34 – Defining Human Resource's Leadership Role: Taking Charge of Outsourcing</i>	<i>187</i>
<i>Figure 35 – Pay for Performance Inputs</i>	<i>191</i>
<i>Figure 36 – Pay for Performance Outcomes</i>	<i>193</i>
<i>Appendix Figure I-1 – The Stanford Visioning Method.....</i>	<i>197</i>

CHAPTER 1

THE IMPACT OF ENVIRONMENTAL CHANGE ON HUMAN RESOURCE MANAGEMENT

A strategic approach focuses on the strengths and weaknesses of the organization and on the threats and opportunities it faces. The changing environment has prompted many enterprises to re-examine all four factors, simply to survive. The best of those enterprises have asked specific questions about their people: Do we have the right people for the strategy we must employ to survive and compete? Does their behavior allow them to contribute to achieving the outcomes needed by the enterprise? How can the human resource management system enhance organizational performance? In other words, such enterprises are looking at human resource management strategically.

This chapter begins with a brief description of changes in the environment – especially changes that are likely to affect human resource management in the uniformed services. It continues with a discussion of contingency theory, a conceptual framework that is particularly relevant to new developments in organizational design – and also to compensation and personnel management. It concludes with a description of trends in these three major subdivisions of human resource management.

A Glimpse of the Dynamically Changing Environment

Every enterprise is propelled by particular key factors. Some are within the enterprise: your work force and goals. Others, such as government regulations, come from outside. But many outside factors . . . are not intuitively obvious. . . . Driving factors often seem obvious to one person and hidden to another. . . . When looking for driving forces, I run through a familiar litany of categories: Society, Technology, Economics, Politics, Environment. In nearly every situation, I find forces from each of these areas which make a difference.¹

Dramatic changes in the environment are causing revolutionary changes . . .

Dramatic changes in the environment are causing revolutionary changes in private sector enterprises. In the economic arena, increasing competition from free and open markets and growing customer expectation of quality at a reasonable price have caused organizations to look for opportunities for competitive advantage across industries, companies, geographies, cultures, and generations. Public and private organizations are realizing the benefits of concentrating on capabilities that differentiate them from their competitors. To focus their attention on these capabilities, they are contracting out (outsourcing) activities that are not core competencies,

¹ Peter Schwartz, *The Art of the Long View* (New York, NY: Doubleday, 1991), pp. 106, 108, 110.

reengineering business processes and redesigning jobs. They are answering fundamental questions of what business they are in, who their “customers” are, and how best to deliver what their “stakeholders” want.

The baby boom cohort influences most major changes in the societal arena. First, this cohort is large, which means more workers in the labor force. This increases competition among peers for jobs and, subsequently, competition for advancement. Second, this cohort is highly educated, providing organizations with a pool of capable workers. Last, this cohort, and workers in general, have high expectations – and a drive for individual success – that are often not fulfilled by organizations. One manifestation of unfulfilled expectations is the willingness of these professional workers to move from one organization to another or even from one career to another. Aware of the characteristics of this labor force, effective organizations are responding in interesting ways. They compete more actively to obtain “knowledge” workers who are comfortable with added responsibilities and empowerment, the elimination of the concept of the job and the increasing requirements for innovative and creative thinking. In addition some organizations are investing more in changing the attitudes and responsibility of both managers and employees to make continual improvement in work processes, services and products.

Organizations are shifting from job-based systems, in which everyone’s specific place is well-defined, to collaborative relationships, in which everyone provides their particular expertise to accomplish a variety of tasks. Team-based skills such as communication, cooperation, and accountability will become at least as important as individual skills. Roles of workers (blue collar, white collar) are becoming blurred. Responsibilities for entire work processes are being shifted away from middle managers – some organizations are eliminating them – to individual employees, team leaders and self-managed teams.

Team-based skills such as communication, cooperation, and accountability will become at least as important as individual skills.

The modern world is on the verge of another huge leap in creativity and productivity, but the job is not going to be part of tomorrow’s economic reality . . . Today’s organization is rapidly being transformed from a structure built out of jobs into a field of work needing to be done. ²

Perhaps changes in the area of technology are having the greatest impacts on enterprises. Widespread use of personal computers and their constantly improving capabilities, linked to vast communication networks – internal local area networks and the Internet for electronic mail and research – are changing the way organizations look and operate. Not unlike the effect of digitization of the battlefield, the near real-time availability of information to all levels of workers is radically changing people’s ability to accomplish work. Enterprises become more responsive and flexible, as people at all levels use available information to get work done rather than waiting for information to be passed to them.

² William Bridges, “The End of the Job,” *Fortune*, September 19, 1994, p. 64.

...the changes in the environment are so widespread and substantial that marginal changes to the human resource management system are insufficient.

Enterprises must also address issues in the political arena. There is a recognized tension between private enterprises and government, with the debate focused on what the role of each should be. A wide-spread belief exist that many government tasks, including some even in this national defense arena, could be more efficiently done by the private sector – privatization. The demand for public accountability is far reaching and expected to continue to expand. The current political environment is causing organizations to negotiate with – and sometimes to engage in strategic alliances with – government agencies, interest groups and other enterprises.

Enterprises are increasingly using the human resource management departments to address issues that flow from environmental changes and influence the performance of their members. If only one or a handful of environmental changes affected an organization, perhaps a few modifications to the human resource management system would be all that was needed – individual policies and practices could be fine-tuned to improve their efficiency. However, as suggested by Figure 1, the changes in the environment are so widespread and substantial that marginal changes to the human resource management system are insufficient. To fully understand the threats and opportunities the environment provides, the issue must be addressed strategically: The way the organization does business needs to be examined, and systems (including the human resource management system) need to be redesigned.³

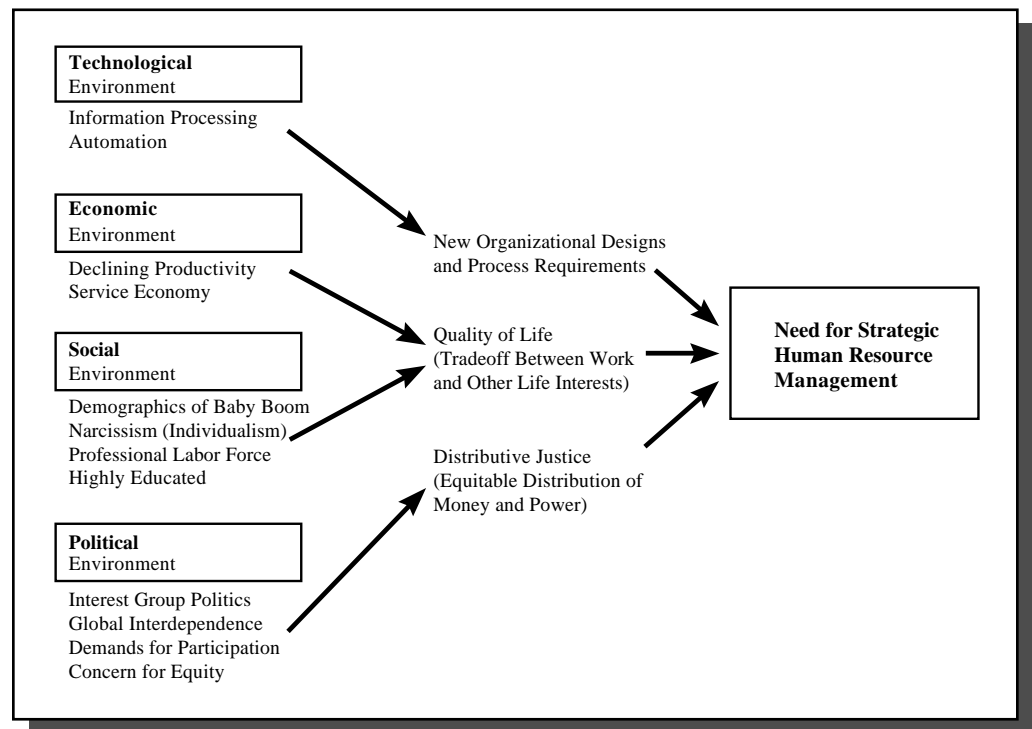


Figure 1 – The External Context of Human Resource Management⁴

³ This chart indicates that strategic human resource management is a reflection of converging environmental trends and converging responses by organizations to improve productivity throughout the organization, to meet demands for member participation, to motivate a work force comprised of more professionals and to address the frustrations of competition. Charles Fombrun, Noel M. Tichy and Mary Ann Devanna, *Strategic Human Resource Management* (New York, NY: John Wiley and Sons, 1984).

⁴ Adapted from Fombrun, Tichy and Devanna, p. 11.

The Environment of the Uniformed Services

The environment in which the uniformed services operate is changing in many of the same ways as that of other organizations. Various observers assert that the uniformed services are currently either involved in a “revolution in military affairs” or will be in the future. A revolution in military affairs occurs when changes in technology or changes in the way people work (or other environmental forces) combine with changes in military concepts and doctrine. A revolution alters how the military provides national security in the future.

Admiral Owens, former Vice Chairman, Joint Chiefs of Staff, focused on four “revolutions”⁷ that are unfolding today. The first revolution is the change in the world around us. Ralph Peters⁸ sees this revolution as follows: “We face a world in much of which the 19th-century manner of organizing and applying the power of the state has become the least relevant of all thinkable models. Far from the conventionally armed and recognizably structured forces, our analysts stretch to imagine our future opponents; we confront, *today*, creatively organized enemies employing behaviors and technologies ranging from those of the stone-age to those at the imagination’s edge.”

The second revolution is a decline in defense budgets – down 45 percent in real terms in the last several years. Funding decisions will become harder, and the department will need to align expenditures to produce the outcomes necessary to fulfill its role in the Nation’s security strategy.

The third is jointness. As the size of the uniformed services decreases, every capability must be exploited to the fullest extent. Joint operations provide a way to retain capabilities lost as a result of force reductions.

The fourth revolution is the speed of change in military affairs. Most leaders recognize that continuous change is a permanent phenomenon. Future technologies will create revolutions in military affairs not even imagined at this point.

In sum, “Our current and evolving national security strategy, responding to the scope and extent of changes taking place in the world, is geared clearly to a different

The US armed forces must change with that world and must change in ways that are fundamental – a new *human* understanding of our environment would be of far more use than any number of brilliant machines.⁵

The services need to recognize both the magnitude and rapid pace of change, and have the courage to embrace these changes to be in front of the train of revolutions.

– Admiral William A. Owens
former Vice Chairman
Joint Chiefs of Staff⁶

⁵ Ralph Peters, “After the Revolution,” *Parameters: US Army War College Quarterly*, Vol. XXV, No. 2 (Summer 1995), p. 14.

⁶ Speech given at Maxwell AFB, August 15-17, 1995.

⁷ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

⁸ Peters, p. 8.

A strategic approach provides the means to identify the strengths and weaknesses of the organization to deal with the threats and opportunities created by a volatile, uncertain, complex, ambiguous environment.

and smaller force. This reality increases the urgency of developing mechanisms for ensuring our armed forces are able to operate smarter, more efficiently, more flexibly, and with better understanding of any potential adversary's strengths and vulnerabilities.”⁹

The appropriate response by the uniformed services to the changing environment – though driven by a different motivation – is, and will continue to be, similar to that of other large, diverse organizations. A strategic approach provides the means to identify the strengths and weaknesses of the organization to deal with the threats and opportunities created by a volatile, uncertain, complex, ambiguous environment. The changing environment of the uniformed services suggests:

- The uniformed services can expect more competition for high quality recruits.
- The ability of the uniformed services to increase the human capital of service members will make them more valuable to other organizations that demand workers with specific skills and enhanced interpersonal behaviors. This suggests the possibility of strategic alliances with other organizations, external to the uniformed services, that might share part of the cost of training.
- The availability of information to all levels of the organization may challenge current concepts of rank structure and authority.
- Job security in the uniformed services may be less attractive to people who prefer self-managed careers. Even if job security is attractive to certain people, they may not have the inherent competencies needed by the uniformed services in the future.
- The current retirement system, a long-standing centerpiece for influencing retention in the uniformed services, may lose some of its effectiveness as other organizations provide portable retirement benefits.
- The character of the human resource management system, including that of the uniformed services, may change substantially; for example,
 - An entitlement culture may become a contribution- or performance-based culture.
 - Longevity/cost-of-living increases may be replaced with increases based on skills or performance.
 - Significant portions of pay may be placed “at risk” (must be re-earned every year).
 - Each member's contribution may be more valued than experience.
 - Rank and pay grade may be separate.
 - Promotions may continue to be based on leadership skills – and they might be achieved through assignment to specific positions.
 - Successful (and longer) careers may not require continued promotion.
 - Success may be defined differently in different communities.

⁹ Owens (August 1995).

We believe that tomorrow will be different – indeed, that it should be different – from today. We value our past, but we do not seek to live in it. We cherish our traditions, but we don’t wallow in them. We understand that history is about where we’ve been, not about where we’re going. We know that we cannot find our future in our past.

– Honorable Edwin Dorn
Undersecretary of Defense for
Personnel and Readiness ¹⁰

Contingency theory recognizes the power of choice within the organization to confront and respond to the challenges and opportunities in the environment.

The next section describes contingency theory. Contingency theory recognizes the power of choice within the organization to confront and respond to the challenges and opportunities in the environment. This discussion serves as a bridge between the emerging changes in the environment and the observed trends in policies and practices within the three main components of the human resource management system – organizational design, compensation and personnel management.

Contingency Theory

During the first half of this century, at the core of the industrial age, organizations sought the *one best way* to organize. Frederick Taylor, an influential organizational theorist of this period, was a leader in “standardizing” the general approach to business. Based on his theories, an organization was viewed as a huge machine with the people and equipment as parts of that machine. This perspective is often called a “mechanistic” view of an organization and is still found in assembly line manufacturing organizations and at the counter in fast food service industries. ¹¹ This mechanistic view of the organization is primarily inwardly focused (a closed system) because it does not consider the environment – if the plant was operating, it would produce X widgets per day. Though the plant needed raw materials to operate, they were assumed to be given, and the output produced was assumed to be desired by a customer.

Not until the 1950s did social scientists begin extensive empirically testing of this view of the organization. ¹² As a result, the interface between the organization and its environment received more attention. The concept that organizations are “open systems” began to develop.

As shown in Figure 2, organizations interface with their environment primarily at two points – through their inputs and outputs. ¹³ Organizations depend on the environment to provide the necessary resources as input to produce its product or service. These resources include labor (employees who bring education, skills and competencies that are a further reflection of the environment), raw materials, financial resources and technological breakthroughs, etc. The output creates an interface

¹⁰ Remarks delivered at The Citadel Greater Issues Series, Charleston, SC, February 8, 1996.

¹¹ Gareth Morgan, *Images of Organization* (Newbury Park, CA: Sage Publications, 1986), Ch. 2, *passim*.

¹² W. Richard Scott, *Organizations: Rational, Natural, and Open Systems*, 3rd ed. (Englewood Cliffs, NJ: Prentice Hall, 1992), p. 9.

¹³ Morgan, p. 49.

primarily with customers and their demands. For the organization to survive, its service or product must be desired by its customer base.

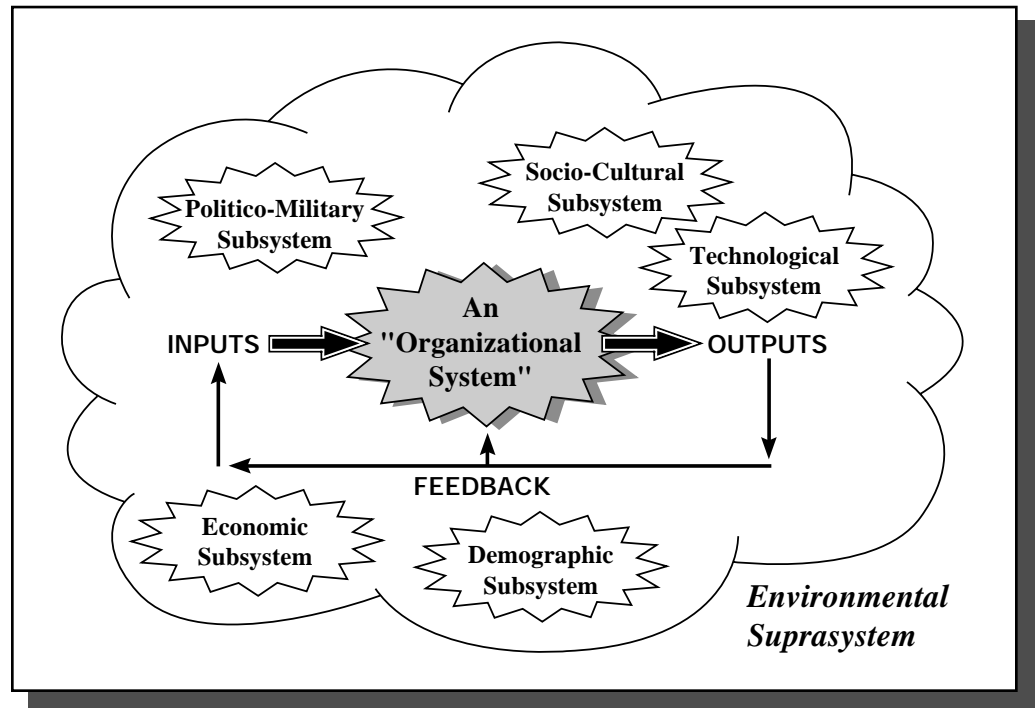


Figure 2 – An Organizational System in Its Environment

From an open systems perspective, “Organizations are systems of interdependent activities linking shifting coalitions of participants; the systems are embedded in – dependent on continuing exchanges with and constituted by – the environments in which they operate.”¹⁴ Applications of this definition to the uniformed services are fairly straightforward, as suggested in the sidebar on the next page.

¹⁴ Scott, p. 25.

Military Example of Interdependent Activities

The component units of an Air Force composite wing are clearly interdependent and depend on continuing exchanges with the other organizations in their internal and external environments: The flying squadrons can not operate without the maintenance squadrons, which receive their funding from the financial management unit and their parts from the supply squadron. The civil engineering squadron maintains the runways, runs the base housing units where many personnel reside and receives funding from the financial management unit. In turn, the financial management unit receives funding from part of the wing's "external environment" – its parent major command, which ultimately receives the funds from the taxpayers. Labor for the flying squadron, maintenance squadron, supply squadron, civil engineering and financial management all come from American society, the external environment.

Furthermore, coalitions of participants shift within the wing: Personnel come and go as a result of separations and new assignments; different aircraft and weapon systems are task-organized or "packaged" together according to the requirements of the type of mission being flown (which is determined partly by the target in the external environment). Units with a close air support mission train with different Army units, Army commanders, and forward air controllers over time. Aircraft crews communicate with different tower personnel, air traffic controllers, and weapons controllers almost daily. Pilots in single-seat aircraft do not always fly with the same wingman. Pilots in multi-seat aircraft do not always fly with the same weapon-systems officer, copilot, navigator, etc. Tanker pilots operate with different boom operators and refuel planes piloted by individuals with different levels of skill and experience.

Contingency theory, in the context of organizational design, is based on the idea that no single, universal organizational structure is best. The best or most appropriate organizational structure is the one that meets the relevant requirements of the environment. It is not possible to say, therefore, that all effective organizations should structure themselves as a bureaucratic hierarchy, as a matrix, as an inverted pyramid, in teams, by product line or in networks. Effective leaders understand that the environment, tasks, technology and people combine to suggest the structure that will provide the "best fit" for the organization.

Contingency theory suggests that in stable or predictable environments, organizations can structure more rigidly and more easily develop strategies to pursue efficiency. In complex, changing or unpredictable environments, however, organizations must develop methods to cope with greater uncertainty. This includes more flexible organizational structures.

Effective leaders understand that the environment, tasks, technology and people combine to suggest the structure that will provide the "best fit" for the organization.

[T]here is no single best way in which to design the structure of an organization. Rather, what is best or most appropriate depends – is **contingent** – on what type of work is being performed and what environmental demands or conditions confront the organization.¹⁵

¹⁵ Scott, p. 227.

Recognizing that organizations were open systems that interfaced with their environment was a major step toward determining that there is not one best way to organize.

Contingent Systems

As industries were once likened to machines, the open systems view likens organizations to organisms.¹⁶ Organisms interact with their environment. They depend on their environment for various kinds of sustenance, such as food, air and shelter. The environment places demands and constraints on the organism. Variations in terrain limit how far an organism may travel; a different terrain may not provide the needed sustenance for the organism. The environment also creates choices for the organism: which direction to travel, what to eat, where to live, etc.

The environment is characterized in terms of several factors that affect the organism, such as the rate of ecological change (ranging from the extremely slow movements in land masses to the more rapid change of weather), the degree of uncertainty (whether events tend to be fairly predictable or repetitive), the number of possible states (how many different situations must the organism be prepared for) and the degree of competition (fierce or unchallenged).

Organisms must achieve an appropriate relation (or “fit”) with their environment if they are to survive. Certain species are better adapted to specific environments than others. For example, fish are best suited to water; most – but not all – mammals to land. Organisms whose internal features best match the demands of their environment will achieve the best adaptation. Neither a fish nor mammal is best suited to all circumstances or environments. Rather, species that have survived have adapted to their environments.

The realization that surviving depends on the best fit between the organization and its environment led the thinking of organizational theorists from the recognition of open systems to contingency theory. Organizational theorists had searched for *the* best way to organize for many years. Recognizing that organizations were open systems that interfaced with their environment was a major step toward determining that there is *not* one best way to organize. The best way for any organization to organize depends on what organizational form creates the best fit with its particular environment. Certain types of organizations are better adapted to specific environments than others. Those organizations whose internal features best match the demands of their environment will achieve the best adaptation and vastly increase their chances of survival.

The best or most appropriate structure for a particular organization, therefore, is contingent on:

- Environment.
- Tasks.
- Technology.
- People.
- Size.¹⁷

¹⁶ Morgan, Ch. 3, *passim*.

¹⁷ Adapted from Morgan, pp. 62-63.

Considerations about the *environment* include whether it is stable or changing and, if so, at what rate it is changing; the environment can be predictable or uncertain, simple or complex, and competitive or cooperative. Characteristics of an organization's *task(s)* affect how work is done in that organization; these characteristics include the number of tasks and whether they are routine or innovative. The *technology* employed by an organization may be basic or sophisticated, stable or changing, and changing rapidly or slowly. *People* in an organization may be (or need to be) skilled or unskilled, or autonomous or supervised. The *size* of an organization may be small or large.

To reach their goals, organizations must develop organizational structures that match the demands, constraints and choices emanating from their environments, tasks, technologies, people and sizes.

Strategic Choice Approach to Systems Contingency Theory

Following contingency theory, the strategic approach assumes organizations to be open systems that confront and respond to variable challenges and opportunities in their environments. However, rather than assuming that administrators are highly constrained in their decisions, strategic contingency theorists emphasize the importance of choice.¹⁸

The strategic choice approach to systems contingency theory focuses on the ability of organizations to influence the environment around them. Although they must consider the environment, they are not its captives; they can choose their own direction. This theory emphasizes that leaders can make strategic choices that are *constrained* by the environment but not *determined* by it.

The strategic choice approach to systems contingency theory is well supported by studies over the past 50 years.¹⁹ The theory represents a profound shift from the earlier search for “the one best way” to organize. Strategic choice is precisely the requirement for senior managers of the enterprise to guide and develop this match. The basic underpinning – that effectiveness comes from a close fit between the organization and the unique situation it faces – has guided studies in organization theory,^{20, 21} strategy,²² leadership²³ and compensation.²⁴ The premier study conducted by Burns and Stalker is described in the sidebar, on the next page.

¹⁸ Scott, p. 112.

¹⁹ Gibson Burrell and Gareth Morgan, *Sociological Paradigms and Organizational Analysis* (London, England: Heinemann, 1979).

²⁰ Paul R. Lawrence and Jay W. Lorsch, *Organization and Environment* (Homewood, IL: Irwin, 1967).

²¹ James D. Thompson, *Organizations in Action* (New York, NY: McGraw-Hill, 1967).

²² Raymond E. Miles and Charles C. Snow, *Fit, Failure and the Hall of Fame: How Companies Succeed or Fail*, (New York, NY: Free Press, 1994).

²³ Fred E. Fiedler, *A Theory of Leadership Effectiveness* (New York, NY: McGraw-Hill, 1967).

²⁴ Edward E. Lawler III, *Strategic Pay: Aligning Organizational Strategies and Pay Systems* (San Francisco, CA: Jossey-Bass Publishers, 1990).

Burns and Stalker Study

Burns and Stalker examined four successful companies with different tasks operating in different environments.²⁵ The four companies were a rayon mill, a switchgear firm, a radio and television firm and an electronics firm. Despite each company being a manufacturing firm, they all used different technologies, competed in different environments, faced different complexity in their tasks, and *organized differently to best fit to their environment*.

The rayon mill had a relatively stable environment with routine, well understood technology. Employees had well defined tasks. The firm relied on efficiency and cost control. There was no need for innovation.

Best Fit: Mechanistic, divisionalized, bureaucratic organizational structure

The switchgear²⁶ firm had a more uncertain, turbulent, changing environment (namely, expanding market). Its success hinged on improvements in design and controlling costs. The tasks were not as well defined as in the rayon mill because some products had to be made to customer specifications.

Best Fit: Less hierarchical; more teams and communication through meetings

The radio and television firm had an even more unstable environment. Changing technology created frequent product modifications. The firm was required to make strategic choices to remain competitive.

Best Fit: More flexible and collaborative across departments; project teams

The electronics firm was in a highly unpredictable environment. The technology changed rapidly. Invention, innovation and strategy were critical to success.

Best Fit: Most flexible and adaptable; jobs shaped themselves; constant defining and redefining of people's roles; *ad hoc* teams

. . . the strategic choice approach to contingency theory has general applicability to all of human resource management . . .

Although derived in the context of organizational design, the strategic choice approach to contingency theory has general applicability to all of human resource management and, in fact, provides the foundation for the strategic approach to human resource management recommended in this report.

In the context of organizational design, an effective structure of an organization is shaped not only by environmental factors such as technology and type of product produced but by the strategy organizational leaders choose.²⁷ In a *stable* environment with *unchanging* technology and *simple, routine* tasks, the “best fit” will be achieved with a mechanistic, bureaucratic, centralized, divisionalized organization. In an unstable environment with changing technology and complex tasks, the organization must

²⁵ Morgan, pp. 52-53.

²⁶ Switchgear (also switcher gear) – the aggregate of switching facilities for a power station or transforming station.

²⁷ These inherent assumptions about senior management require significant involvement by senior managers who must: direct overall actions of the organization; select and direct the implementation of a strategy yielding growth, survival and satisfactory outcomes for key constituencies; and facilitate the longer term future of the organization as an on-going enterprise.

become *more* open, collaborative and flexible (for example, by using teams), and *less* hierarchical, centralized and departmented.

Two of the key organizational design variables are environmental uncertainty and variability. If the environment is predictable (or reasonably so), then an organization designed to achieve well-defined, slowly changing goals at least cost is appropriate. In fact, the efficiency possible in a predictable environment is a strong competitive advantage.²⁸ For an example of how a stable environment affects the design of a uniformed services organization, see the sidebar.

Organizational Design in a Stable Environment

The non-deployable portion of military finance handles military pay, civilian pay, travel pay, government contracts, installation accounting, and disbursing. Its task is to provide finance and accounting services while maintaining strict accountability of funds.

The finance centers operate in a very stable environment. There are no competitors; the work to be done is predictable. The customer base is stable with limited potential for growth or decline. The workload is predictable (though it may have some seasonal aspects). Skill requirements for employees are also known and stable. The tasks are rule-based. Technology, particularly in the information systems and automation, is improving, though on a fairly predictable course and at a stable rate.

The desirable organizational requirements include accountability; a high level of control; formalized, defined relationships; standardized processes; specialization of functions; checks and balances; and limited cross-communication between functional areas (the areas function independently, so cross-communication between functional areas is limited).

The desired organization focuses on the **accountability** of funds and the **efficient** administration of finance and accounting services in a **stable** environment. The result is a centralized system that takes advantage of economies of scale, a very procedural, routinized work arrangement, and the accompanying hierarchical levels for integration and control.

A changing environment requires changes in strategy; changes in strategy . . . require a different set of tasks, technologies and people; and these, in turn, require a different organizational design.

If, on the other hand, the enterprise faces a less predictable environment, organizational design must cope with the requirement to maintain both flexibility and adaptability. If the environment changes rapidly, opportunities and threats change rapidly as well. A changing environment requires changes in strategy; changes in strategy, in most cases, require a different set of tasks, technologies and people; and these, in turn, require a different organizational design. *In essence, the enterprise must be capable of designing its organizational structure to achieve a succession of changing goals.*²⁹ For an example of how an unpredictable environment affects the design of a uniformed services organization, see the next sidebar.

²⁸ Wal-Mart for example, generally locates stores in very consistent environments – small- to medium-sized towns. Because the stores are located in homogeneous and predictable environments, Wal-Mart can focus on minimizing cost through centralized buying and inventory control.

²⁹ Although not discussed in this report, organizational learning is a necessary process for coping effectively with this environment. See Chris Argyris and Donald A. Schon, *Organizational Learning: A Theory of Action Perspective* (Reading, MA: Addison-Wesley, 1978).

Organizational Design in an Unpredictable Environment

A Marine Expeditionary Unit exemplifies an existing combat unit that operates in a rapidly changing environment performing widely varied tasks. This example shows how a Marine Expeditionary Unit task-organizes to achieve a “best fit.” Its “strength lies in its rapid deployment, flexibility in structure, and its combined-arms capability.”³⁰ Marine Air-Ground Task Forces: “offer warfighting commanders-in-chief a readily available, self-sustaining, combined arms combat force; . . . are task-organized based on a particular mission;” and focus on flexibility as the key to organizing for combat.³¹

A typical Marine Expeditionary Unit is composed of a composite helicopter squadron, a reinforced infantry battalion (called a battalion landing team) and a Marine Expeditionary Unit service support group. The attributes of being a self-sustaining unit that is able to reconfigure itself result from the varied and extensive equipment the Marine Expeditionary Unit takes with it when it deploys

The tactical recovery of aircraft and personnel team from the Marine Expeditionary Unit organized and planned the rescue of Captain Scott O’Grady, a USAF F-16 pilot, from the hostile, wooded hills of war-torn Bosnia. It had this task: be ready to launch a tactical recovery of aircraft and personnel package to rescue Captain O’Grady within one hour of notification.

This example may be counter-intuitive for many people who think combat units are organized as rigid, hierarchies and are, therefore, inflexible. The successful rescue of Captain O’Grady illustrates a combat unit whose organizational design highlights the value of using contingency theory to structure an organization based on its environment.

The environment contained a large degree of uncertainty. The exact locations of Captain O’Grady and potential threats (SAMs, AAA, enemy); what day, time of day (or night) the mission would be executed; and what the weather would be were all unknown. Controllable variables included the mix of aircraft, troops and ships that would take part. Adding to the situational uncertainty was the well known fact that nothing ever goes *completely* as planned. The task required rapid response and reorganization. The sequence of events began with NATO’s Southern Europe Commander being notified at 0100 that Captain O’Grady had been found. The planners of the mission, once ordered to launch the mission, were given two hours (0300 - 0500) to complete the mission planning. Tasks to complete in these two hours included briefing all aircrew and ground troops, loading weapon systems, fueling and positioning aircraft, preflight of all aircraft, etc., as well as coordinating with other ships, other American forces, bases and aircrews.

The desired organizational requirements included decision-making at low levels, good information, high level of training for this type of mission and redundancy to increase chances of success and guard against unexpected events. The desired organization to meet these requirements is a *flexible, responsive* organization to cope with a high degree of *uncertainty* in the task and environment.

In general, the environment is becoming more turbulent over time, and as a result, the places where mechanistic structures are effective are much rarer. At one time, industries that were considered stable and predictable, thus suitable for mechanistic structures, included autos (before the oil crisis of the early 1980s, the success of foreign competitors, the advent of new production models such as lean manufacturing and new technologies such as increasing computerization of cars and trucks); steel (before foreign competition, minimills with more efficient production technology and competition from plastics); and telecommunications, airlines, and banks (all profoundly changed by deregulation and the breakup of monopolies); etc. It is hard to find truly static industries today and – entertaining to see which industries were called stable in writings of the 1960s and 1970s. This is one of the key reasons for the increased interest in and use of “organic” structures such as teams in the 1980s and 1990s throughout U.S. industry.

Two major challenges are related to keeping the organization aligned with its environment and strategy. First, it requires time to change. Structure can change more rapidly than capital resources, which change more rapidly than culture. But all change takes time. Therefore, a contingency theory-based approach requires a strategic view to anticipate needed changes to maintain a proper fit or alignment with a changing environment.

For the organization to truly align with the environment, many facets of the organization must be aligned to the strategy and to each other – not just the elements of the human resource management system. Miles and Snow have summed up the contingency challenge well: “Arranging resources – people, equipment, money – in ways that facilitate rather than impede achieving the strategy.”³²

In summary, the strategic choice approach to systems contingency theory asserts that an organization’s fit with the environment is a product of human decision, action and inaction. The chosen strategies, coupled with the environment, tasks, technology, people and size of the organization, will determine the most appropriate structure of the organization – and other elements of human resource management system, as well. Therefore, contingency theory teaches:

- There is no single, universally best organizational structure.
- The appropriate form depends on the organization’s environment, task, technology, people and size.
- Strategy influences organizational structure.
- Organizational structure influences strategy.

... a contingency theory-based approach requires a strategic view to anticipate needed changes to maintain a proper fit or alignment with a changing environment.

³⁰ Brigadier General H. W. Jenkins, Jr., Foreword to *Marine Air-Ground Task Force Pocket Guide* [LFTCLANT 0305-3(3-90)] [Norfolk, VA: U.S. Marine Corps Landing Force Training Command, Atlantic (LFTCLANT), 1990].

³¹ U.S. Marine Corps Landing Force Training Command, Atlantic (LFTCLANT), *Marine Air-Ground Task Force Pocket Guide* [LFTCLANT 0305-3(3-90)] [Norfolk, VA: U.S. Marine Corps Landing Force Training Command, Atlantic (LFTCLANT), 1990], p. 2.

³² Miles and Snow (1994), p. 15.

Although “benchmarking” is one means of scanning the environment, . . . this report proposes a different approach, informed by trends, but relying on a more rigorous procedure for linking policies and practices to an organization’s strategy.

Desired outcomes and characteristics of the operating environment guide the organizing process; this is the critical logic underlying organizational design.

Trends in Human Resource Management

The trends described in this section reflect how organizations are responding to their external environments. The fact that other organizations are successfully using the practices summarized below to enhance performance and productivity, foster institutional cultures and values, and attract and retain quality personnel suggests they may be beneficial to the uniformed services as well. In fact, some of these trends are beginning to manifest themselves in the uniformed services today; in other cases, they are being discussed as changes potentially needed in the future.

However, as the above discussion of contingency theory implies and as conversations with officials from a number of large organizations confirm, policies and practices must fit the specific circumstances of the organization employing them if they are to be effective. That the use of “pay-for-performance” is increasing, for example, is suggestive. But the question that an organization thinking of this particular practice must ask is whether that practice is obtaining the effect desired by the organizations that have chosen to employ it. Further, what is the environment within which it is being employed, and is that the same environment in which its use is contemplated? What other policies and practices have been implemented in conjunction with this practice to make it more effective? Widespread use by other organizations does not necessarily mean that a policy or practice is useful, or even appropriate, for the uniformed services. Although “benchmarking” is one means of scanning the environment, it is a very blunt instrument for designing a human resource management system for a particular organization. This report proposes a different approach, informed by trends, but relying on a more rigorous procedure for linking policies and practices to an organization’s strategy.

Organizational Design³³

Strategy development, whether explicit through executive decision making or implicit through historical accident, guides the entire organizational endeavor. At the broadest level, the strategic process clarifies categories of missions that must be accomplished; and this, in turn, defines the environments in which the organization must operate. Desired outcomes and characteristics of the operating environment guide the organizing process; this is the critical logic underlying organizational design.³⁴

So at one level of analysis, organizational design takes meaning only in relation to the specific desired missions, strategies, outcomes, goals, objectives, etc., and the environment in which the organization operates. A set of *general* organizational characteristics results from this level of analysis. The task then turns to developing appropriate clusters and flows of resources, effective interfaces among processes and supportive working relationships. A set of *detailed* organizational characteristics results from this level of design. The strategic choice approach to organizational

³³ This section was influenced substantially by the extensive work and contributions of Dr. Michael S. Wenger, Wenger and Wenger Consulting.

³⁴ It is the key logic, as well, underlying personnel management and compensation.

design matches *detailed* organizational characteristics with *general* organizational characteristics (and the environment).

Therefore, distinguishing between at least two levels of organizational design decisions is important. *Macro-level decisions* (those at the corporate or major sub-unit level) answer the question of what major groupings are appropriate for the over-all organization. These decisions often result in a division into subunits, geographic areas of responsibility or other major categories of the operation. These major categories represent the areas of organizational focus that are critical to accomplish specific missions and strategies. These decisions attempt to match broad missions with appropriate resource affiliations and configurations. At the macro-level, organizational design blends with strategic planning.

At a more *micro-level*, organizational design must grapple continuously with developing processes, relationships and capabilities to facilitate the accomplishment of the strategies of each major subunit. These decisions are the various ways organizations attempt to facilitate working relationships, job-related resource allocations and individual member expectations. The primary organizational design concern at the micro-level is coordination of resource³⁵ input and control of organizational output.³⁶ At the micro-level, organizational design blends with human resource management policies and practices.

Said another way, at the macro-level, organizational design is concerned with establishing effective configurations of corporate resources; at the micro-level, organizational design is concerned with effectively using those resources to accomplish organizational outcomes. The Department of Defense focuses extensively on force structure decisions at the macro-level, and periodic emphasis has been given to other parts of the organization (the support structure), though using a less formal, often *ad hoc* mechanism. Individual commanders have some flexibility for addressing micro-level decisions (in fact, commanders have, arguably, more flexibility in the organizational design component than they have in the other two components of human resource management – compensation and personnel management).

Certainly, changes to organizational design at the micro-level influence performance. However, it is a form of suboptimization because the other components of the human resource management system are seldom considered, and less frequently changed, in conjunction with changes in organizational design. Substantially greater impact is possible if all the elements of the human resource management system are aligned with the strategic direction of the organization. This report is about decision making at the micro-level but set in the context of the macro-level.

. . . changes to
organizational
design . . .
influence
performance.

³⁵ Including labor, physical resources, capital and energy.

³⁶ Coordination of resource input and control of output is key to understanding this level of organizational design. The traditional “management hierarchy” is designed to accomplish this role as are self-directed work teams.

. . . there has been a . . . trend toward greater flexibility in organizational forms

Over the past decade, many organizations have faced unprecedented variability and complexity in their environments; consequently, there has been a very well publicized trend toward greater flexibility in organizational forms (both at the macro and micro-level). In some sectors, organizations are developing smaller, highly focused corporate forms and innovative organizational practices precisely to cope with fast-paced change in their environments. (These emerging environmental characteristics are attributed to increased global competition, lower-cost transportation, rapidly changing technologies, more sophisticated consumer behavior, etc. – in other words, the environment has suddenly become much more complex and less predictable.) Somewhat less well-publicized, organizations in some sectors are also developing new ways to reap benefits from operating in stable environments ³⁷ or developing new ways to respond quickly to changes in the environment. ³⁸

Thus, environmental pressures have led organizations to seek forms with the following characteristics:

- Increased flexibility:
 - Faster response to changes in market.
 - Quicker assimilation of new technologies and new processes.
 - More kinds of outputs from given resources.
- Lower total costs.
- Lower fixed investment (a strategy to cope with rising uncertainty – reduce downside risk):
 - Fixed investment on a very limited aspect of the total process (such as core competencies). ³⁹
 - Outsourcing (outsourced contractor bears risk of fixed investment).
 - Strategic alliances (temporary and changeable configurations).
- Improved productivity (defined at macro-level as outputs for given level of inputs ⁴⁰):
 - Capital investment to improve labor productivity.
 - Improved business processes.

³⁷ Wal-Mart selects the same environment for establishing each store in approximately the same size cities with similar customer bases.

³⁸ Frito Lay uses technology (bar codes) to make inventory control a near-real time process and respond quickly to variations in sales.

³⁹ One-third of U.S. manufacturing is now contracted out and 100 percent in companies such as Nike.

⁴⁰ It is important to note that, in business analysis, productivity is defined at an organizational level, not an individual one. Total system output is the measure of primary interest to organizational success. People working harder in a poorly designed system is not an improvement. See W. Edwards Deming, *Out of the Crisis* (Cambridge, MA: MIT Press, 1986).

The uniformed services face a similar environment. In the future, the uniformed services can expect to face an environment of “rapid change, diverse contingencies, limited budgets, and a broad range of missions to support evolving security policies.”⁴¹ “The Army faces substantially declining resources and a more diverse series of potential threats.”⁴²

The implications for the uniformed services look quite similar to the above list for private sector organizations. The uniformed services will need greater organizational effectiveness, flexibility,⁴³ and adaptability.⁴⁴

The Macro-level

Traditionally, formal organizational design at the macro-level has three basic configurations: functional, divisional or matrix.⁴⁵

- Functional organizations consist of a centralized set of functional departments. A typical set of departments would include production, finance, personnel, and sales. This organizational form can often create cost efficiencies through specialization and central control.
- Divisional organizations integrate functional departments into each division, thereby creating more autonomous units that, though similar to each other in structure and purpose, have their own unique focus. These divisions may be organized around different foci, such as product, market, customers, or geography. Resources and direction are typically centrally controlled.
- Matrix organizations combine features of both the functional and divisional organizational forms. Personnel are “assigned” to a functional grouping or department but are then allocated to projects (roughly analogous to the divisional type of organization). The organizational arrangement creates dual roles for personnel and organizational units – they must balance efficiency and specialization requirements of the functional departments with the responsiveness and focus of the project teams.

During the past decade, many operating environments have become exceptionally fast-changing. This has arguably been the case for the uniformed services, especially in view of the changing doctrine such as reflected in Joint Vision 2010 and Force XXI.

Organizations facing complex environments find that greater flexibility in their relationship with the work force (low fixed commitment) and multiple possible configurations are overriding organizational design imperatives. These general requirements have led to a fourth basic macro-level configuration: modular.

Organizations facing complex environments find that greater flexibility in their relationship with the work force . . . and multiple possible configurations are overriding organizational design imperatives.

⁴¹ Commission on Roles and Missions of the Armed Forces, *Directions for Defense*, Report of the Commission on Roles and Missions of the Armed Forces to the Secretary of Defense (Washington, DC: U.S. Government Printing Office, May 24, 1995), p. ES-1.

⁴² Richard N. Osborn and C. Christopher Baughn, *Principles of Design for High Performing Organizations: An Assessment of the State of the Field of Organizational Design Research* (ARI-TR-996) (Alexandria, VA: U.S. Army Research Institute for Behavioral and Social Sciences, March 1994), p. 19.

⁴³ The ability to respond to a wide variety of internal and external environmental situations at any given time.

⁴⁴ The ability to assimilate new ideas, technologies and processes in order to respond to changes in the environment over time.

⁴⁵ Miles and Snow (1994), pp. 38-40.

Modular organizations are more flexible and responsive. Instead of internally accomplishing all needed organizational functions in a fairly set structure, like the other organizational types, modular organizations structure around concepts such as value-chains⁴⁶ or core competencies and are willing to outsource or form strategic alliances with other organizations. Miles and Snow⁴⁷ characterize modular organizations into three types:

- Dynamic – typically focus on a portion of the value chain and form partnerships with other organizations to provide key products or services; typically used in environments with rapid technological advances or requiring quick responses to changes in customer needs.
- Stable – form partnerships with firms to be key suppliers or distributors; more often appears in mature industries.
- Internal – a network within the organization itself; control is market-driven; often appears in multi-national companies.

All three of these modular forms appear to have applicability in the environment faced by the uniformed services. The first can be seen in the acquisition community. The second and third are manifested in outsourcing relationships and joint task forces, respectively.

Table 1 associates specific companies with different organizational types.⁴⁸

⁴⁶ A “value chain” is the complete set of activities that enable an organization to deliver a product or service that meets the needs of its customers. It may start with acquisition of raw materials, include research and development, production, distribution, marketing, and end with sales and service.

⁴⁷ Miles and Snow (1994), pp. 56-60.

⁴⁸ See Miles and Snow (1994) and Charles Handy, *The Age of Unreason* (Cambridge, MA: Harvard Business School Press, 1990).

Table 1 – Descriptions of Different Organizational Forms

FUNCTIONAL	DIVISIONAL	MATRIX	MODULAR ⁴⁹
<p>Historical interest primarily (no pure examples). The basic building block of the other forms.</p>	<p>Most common form for large organizations.</p> <p>Generally a series of smaller functional organizations.</p> <p>Divisions focused on product, customer, market, geography.</p>	<p>Originated in aerospace and defense.</p> <p>Many applications of cross-functional project teams over the years.</p>	<p>Growing number of examples primarily in high-tech or global organizations.</p> <p>Designed to cope with complex environment.</p> <p>Temporary employees, strategic alliances, fluid team relationships – both internally and externally.</p> <p>High reliance on employees to “discover” the contribution required.</p>
<p>Centralized resource allocation decisions.</p> <p>High efficiencies – low cost. Optimize the total system.</p>	<p>Major resource allocation decisions at the division level.</p> <p>Total system inefficiencies due to overlap and redundancies across divisions. Enhanced focus on division level business.</p>	<p>Reconfigure resources in multiple ways.</p> <p>Fixed investment in resources is established centrally, but specific configuration is flexible.</p>	<p>Resource allocation decisions made directly “by market place” or by decision-makers attempting to read the market.</p> <p>Low fixed commitment, resource potential established in “market place pool.”</p>
<p>Wal-Mart:</p> <p>Controlled environmental complexity by locating stores in similar markets. Explicitly located in predictable environment.</p> <p>Very centralized buying, inventory and distribution system.</p> <p>Little or no local control over products and price.</p>	<p>Rubbermaid:</p> <p>Highly focused product and distribution divisions.</p> <p>Very close match to changing environment.</p>	<p>Sun Microsystems:</p> <p>Geographic sales and distribution organizations “matrixed” to headquarters “lines of business.”</p> <p>Fast changing technologies are pipelined through experts in local customer practices and requirements.</p>	<p>Nike, Inc.:</p> <p>Highly focused on product development part of value chain.</p> <p>Formed stable contract relationships with suppliers, manufacturers and distributors.</p>

⁴⁹ Also called network, virtual, etc.

. . . structuring
an effective
organization
. . . is about
choosing the
best alignment
of technology,
people and other
resources to fit
the task and
environment.

The Micro-level

Typically, the term “organizational structure,” conjures up an image of a formal organization chart. Many things about an organization can be discerned from an organization chart but not all. On even an unlabeled organization chart, the following can be inferred:

- The person or group at the top has *control*.
- The *relationships* between individuals and groups.
- Based on these relationships, the amount of *status* held.
- The lines of *communication* and the *division of labor*.

Labeling the organization chart provides additional information. The label (for example, corps versus squad) allows inferences about the size of the organization. This also shows level – whether the chart depicts the top or bottom of the organization.

But some aspects of the organization can *not* be determined from an organization chart. To name a few, these aspects include environment; competition; purpose, mission, vision, or objectives; resources available; processes; organizational culture (including information about the behavioral climate and informal communication); and characteristics of the individuals (for example, knowledge, skills and abilities).

Yet it is these latter aspects that define the organization. In short, structuring an *effective* organization is *not* about wiring diagrams, bureaucratic hierarchies (or pyramids), matrixing, inverted pyramids, teams, product lines or networks (shamrock, virtual, or spherical organizations, etc.); it is about choosing the *best alignment* of technology, people and other resources *to fit the task and environment*.

At the micro-level, the primary organizational design concerns are coordination of resource input and control of organizational output. The most traditional organizational processes to accomplish these objectives include:

- Plans and schedules.
- Managerial direction/authority (hierarchy).
- Technology (for example, an assembly line).
- Job design.

Plans and schedules establish how, when and by whom actions and tasks will be done. They become the basis of measures to monitor accomplishment and progress toward goals. The *hierarchy* is probably the most common means of control. Supervisors monitor and assign work to individuals. The supervisors also integrate that work or allocate resources, if necessary, to accomplish the broader goals. For example, they can schedule people to ensure all shifts are covered or make sure that work from one person flows to the next person in an appropriate time span. This close control forces a fairly small span of control (ratio of supervisor to supervised). *Technology* can control the work flow itself. Assembly lines, for example, flow the work *to* an individual; and to keep the work flowing, the individual must complete

the assigned task at the established rate of speed. The *job design*, similar to technology, can dictate what and how a person accomplishes the task.⁵⁰ This is true, especially, if the work is broken down into discrete routine and standardized tasks.

In high variability environments, where such pre-planned methods can not achieve organizational goals, other techniques have been applied. Some of these are:

- Cross-functionality.
- Self-management.
- Professionalism.
- Employee training.
- Culture.
- Information systems.
- Work processes.
- Outsourcing.
- Decentralization.
- Goal setting.

Of these techniques, two have been popular in many of the new “modular” forms of macro structures and are worthy of particular note: cross-functionality and employee self-management. They are desirable, in many cases, for the same reasons that highly flexible, modular structures are – for coping with environmental complexity. In unpredictable environments (with poorly understood outcomes), plans, consolidated reports and supervisory control become increasingly incapable of effectively coordinating employee input.

Cross-functionality. This organizational form – bringing together a variety of people from many parts of the organization possessing unique, needed skills and perspectives to solve a problem – has a long history; it is inaccurate to think that it is a new concept. It was identified as an important integrating mechanism by Lawrence and Lorsch⁵¹ in 1967, for example. It has been relatively widely used in divisional forms as well as matrix forms. Indeed “cross-functionality” is defined in relation to “functionality” and, therefore, has its conceptual roots in long-standing organizational tradition. However, it is true that the concept has recently enjoyed a more prominent role in many organizations, for example, at Boeing in conjunction with the 777 design teams and at Ford’s Global Design Organization.

*Self-management.*⁵² In the most general sense, for individuals to contribute effectively to overall organizational outcomes, they must have skills, information, authority and resources as well as motivation adequate to the task. In traditional

In unpredictable environments (with poorly understood outcomes), plans, consolidated reports and supervisory control become increasingly incapable of effectively coordinating employee input.

⁵⁰ Intensive discussion on job design is contained in “Working Paper on Intrinsic Motivation and Rewards” in the Working Papers.

⁵¹ Lawrence and Lorsch (1967).

⁵² For a discussion of self-management, see Kenneth Thomas and Erik Jansen, *Intrinsic Motivation in the Military: Models and Strategic Importance* (Naval Postgraduate School Report NPS-SM-96-001) (Monterey, CA: Naval Postgraduate School, September, 1996).

Organizations have responded in a variety of ways to increased environmental change, uncertainty, and complexity.

functional organizations, it is the role of job design to ensure employees have appropriate skills and the role of management to ensure they have the appropriate information, authority and resources. Individual members, in essence, modify their work behavior in response to guidance from their manager, from reports mediated by the managerial hierarchy or from work plans developed by the managerial hierarchy. Individual members modify their work behavior because of information they receive, whether the information comes from a “supervisor” or more directly from “the environment.” Currently, some organizations are finding advantage in developing technology and processes so information comes to employees more directly from the environment (customer service, supplier order processing) or from the process itself (for example, General Motors’ Saturn project). Increasingly, organizations are finding that more directly linking employees to information sources increases speed and lowers total costs.

Comparing Organizational Designs

Organizations have responded in a variety of ways to increased environmental change, uncertainty, and complexity. Though many of these organizational responses are widely reported, a rigorous study of overall “best practices” relating to organizational design was not found. Research does not indicate, for example, precisely what percentage of organizations use what kind of macro-structure. Nor are there studies of the long-term impact of some of these techniques. (Most are so new that there is no “long-term.”) Finally, many reports of “best practices” confuse and overlap practices at multiple levels of analysis, thus offering limited or no comparability.

However, this lack should not prevent the careful investigation of different organizational designs. The uniformed services, in fact, are exploring, today, organizational designs that may be the “best practices” in the future for a wide array of other organizations.

Compensation Trends

Of the components of the human resource management system, compensation has received much of the attention in the literature and, in fact, by organizations themselves. Consequently, trends, as well as theories and philosophies, are more fully developed than for the other components. This subsection summarizes the major findings in this area.

Introduction

To better understand the findings, it is important to place them in a strategic context. In such a context, two critical principles emerge:

- The first principle is that human resource management must be considered as an integrated system. Compensation is an important component of the human resource management system, but it is only one component. Changes in a single component seldom, if ever, substantially influence the effectiveness of a human resource management system – at least in the way intended. Consequently, in the summary below, it is important to recognize that, to be fully effective, specific compensation practices also carry with them the requirement to align practices in the other components of the human resource management system.
- The second principle is that the human resource management system should be aligned to support the desired organizational strategy. A framework is necessary for selecting one compensation practice over another. There is nothing inherently “good” about a particular practice, regardless of how frequently it is used by other organizations. A practice should be chosen because it helps to accomplish some desired organizational end. The best framework should tie the design of the human resource management system to a stated organizational strategy.⁵³

... human resource management must be considered as an integrated system.

This subsection covers the *monetary* components of compensation, which include direct pay (namely, base and variable pay) and indirect pay (benefits). Within direct-pay components, specific programs have been widely researched and used, for example, job-, skill-, and competency-based pays. The subsection examines two key compensation approaches – paying for the person and paying for performance – in more depth because they are fundamental to understanding emerging reward systems.⁵⁴ The benefits discussion focuses on the most prevalent types: health care and retirement. Finally, as food for thought, the subsection suggests what these trends hold for the uniformed services.

... the human resource management system should be aligned to support the desired organizational strategy.

Trends

Fierce competition for both financial and human resources has led to a “renaissance in compensation” in the private sector. Organizations are experimenting broadly with new ways to reward and recognize people, acknowledging that traditional programs may not be the best solution in nontraditional work environments. An overview of the prevalent trends in the private sector helps frame the discussion of current and emerging practices.

Because compensation is a large part of the budget for most organizations, innovative companies recognize that it is no longer a peripheral consideration in supporting their strategic objectives. Rather, these organizations use their compensation systems to help them achieve a competitive advantage by leveraging *performance* and

⁵³ Other mechanisms for aligning decisions in the human resource management system are available – for example, core processes, core competencies, work cultures, etc.

⁵⁴ *Intrinsic rewards* are nonmonetary rewards that result from workers’ personal aspirations (for example, the personal satisfaction received from doing a particular type of work). A more systematic approach to the role of intrinsic rewards in total compensation may enhance the services’ ability to attract, retain, and motivate personnel. For more information, see “Working Paper on Intrinsic Motivation and Rewards” in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Working Papers* (Washington, DC: 8th QRM, June 30, 1997).

. . . organizations use their compensation systems to help them achieve a competitive advantage by leveraging performance and productivity, not merely as a means of attracting and retaining.

productivity, not merely as a means of attracting and retaining. This perspective also recognizes that organizations must view compensation costs as a total package, focusing on the employee's total cost to the organization, the package's economic value to the employee, how the package compares with what competitors offer, and how its mix of components affects the organization's return on its investment in compensation programs.

For example, organizations use their compensation programs to change employee-employer relationships in ways that enhance performance and productivity. The trend toward increasing employee ownership and involvement in the company or business unit through stock ownership plans and gainsharing⁵⁵ illustrates this approach. By owning a part of the company and sharing in its economic gains, employees may feel a greater stake in the company's performance and have a better understanding of their contribution to that outcome. This perspective – that employees are economic partners with the organization – is also consistent with the growing private sector practice of placing a greater portion of employee pay “at risk,” which is a form of compensation more likely to be applicable to the uniformed services than a share in the equity of the organization. Such practices recognize employees' role in company performance by tying the receipt of rewards directly to individual or group performance in achieving outcomes that, in turn, are related to organizational objectives. These programs also provide some degree of cost control because the rewards do not become part of base pay and compound over time, as base-pay increases do; in addition, the rewards are normally funded from existing compensation budgets. Both the variety of these types of programs and the percentage of salary dependent on them are increasing.

The private sector trend away from lifetime employment with one organization has also decreased the use of benefit programs designed to encourage and reward such careers. Driven by the expense of traditional pension plans, there is a definite trend away from “defined benefit” plans and toward “defined-contribution” plans, with employees sharing in the contribution [for example, 401(k) plans]. Full portability of pension benefits is also a trend on the horizon.⁵⁶ In addition, rather than offering a standard package of pay and benefits, many employers now offer more choice to employees. Cafeteria-style benefit plans, medical savings accounts, various types of retirement plans, and negotiated compensation packages are examples of the decisions increasing number of employees can now make about their compensation packages.

Base Pay

Base pay, sometimes thought of as the “honest day's pay for an honest day's work,” reflects the organization's view of the relative importance of the job and serves as a baseline for recruiting in the external labor market. In the traditional approach (“paying for the job”), base pay levels are set based on a job's relative value in the labor marketplace. This ranking is determined by the position's score in a job evaluation system.

⁵⁵ Gainsharing incentive plans reward eligible employees in a business unit for improving the unit's productivity or profitability.

⁵⁶ The Employee Retirement Income Security Act (ERISA) reduced vesting requirements from 30 years to as few as 5. This change in the legal environment has helped increase employee mobility in the private sector labor market by reducing the significance of one financial barrier to changing employers – forfeiture of accrued pension rights.

Such a system entails a relatively objective and quantitative method for standardizing base pay for a given job classification across the organization. However, this approach values employees primarily in terms of how well they satisfy specific job criteria, regardless of the employees' personal competencies or performance. As organizations look for ways to use their compensation systems more effectively to meet their strategic objectives, two new approaches to setting base pay have emerged: "pay the person" and "pay for performance."

Pay the person systems attempt to capitalize on the full range of those underlying employee characteristics that contribute to effective or superior performance, hence helping the organization achieve its strategic objectives. Two of the most popular types of pay programs used to recognize such individual characteristics are skill- and competency-based pays. *Skill-based pay* rewards employees for acquiring the skills required to do one or more jobs; 60 percent of the Fortune 1000 companies use it in some form. This type of system lends itself particularly well to jobs in which required skills are easy to identify, as in many manufacturing jobs. *Competency-based pay* is a natural evolution of skill-based pay for jobs requiring "knowledge" work, as in managerial or professional occupations.

Pay for performance is another tool designed to help the organization leverage its compensation system to achieve its strategic objectives. Under this concept, part or all of an employee's pay depends on individual or group achievement of a predetermined level of performance, regardless of seniority, job, skill or knowledge level. Initially, this concept was implemented through annual *merit raises*, which increase base pay according to certain performance criteria. However, merit pay programs are expensive because, as an increase in base pay, the raises compound over time. In addition, two "line of sight" limitations tend to reduce merit pay's effectiveness in motivating performance. First, because merit raises are often given with little or no differentiation among actual levels of performance, employees frequently view them as entitlements, unrelated to increased performance. Second, these raises are usually given only once a year. Both of these characteristics reduce employees' association between actual performance and being rewarded for it, thus limiting the incentive effects of traditional merit raises. Moreover, it is often difficult to distinguish individual performance in organizations where there is considerable interdependence in the work. This was a major reason for the well-documented failure of experiments with merit pay in the Federal Civil Service System. Finally, merit pay systems typically are based on meeting negotiated performance objectives. These objectives may become irrelevant during the year as conditions change. Thus, Deming frequently compared such systems to "driving down the highway by looking only in the rear-view mirror."

Variable pay plans have been more effective than merit pay in motivating performance. Under these plans, part of an employee's or group's pay varies with how well individual or group performance meets the organization's performance objectives.⁵⁷

As organizations look for ways to use their compensation systems more effectively to meet their strategic objectives, two new approaches to setting base pay have emerged: "pay the person" and "pay for performance."

⁵⁷ Variable pay is considered "at risk." In other words, the pay must be re-earned in order for the individual or the group to continue to receive it. A narrower definition refers to "pay-at-risk" only if it is variable and employees must reduce their fixed pay to participate in the program. This report uses the broader definition.

Variable pay plans can help control compensation costs because payouts occur only when performance actually increases and are not cumulative over time.

In order for the payout to recur, performance must recur at predetermined levels. Thus, by linking pay to how well individual or group performance meets the organization's objectives, variable pay enhances the line of sight between performance and reward, increasing employees' motivation to perform. When employees can clearly see the types of performance that are rewarded, they may be more likely to try to repeat that performance in order to get the reward again.

Variable pay plans can help control compensation costs because payouts occur only when performance actually increases and are not cumulative over time. Hence, private sector organizations are increasingly shifting pay from base pay into variable pay programs. Studies have shown that these plans can be effective in improving short-term performance, but their longer-term effectiveness is still unknown. Examples of variable pay plans for individuals include incentive pays, like profit sharing and stock ownership plans; and cash awards and bonuses. Variable pay can also be used to reward increased group or team performance; gainsharing has also been effective for this purpose.

Benefits

Benefits are forms of remuneration not found in the paycheck; they traditionally provide income protection against uncertainties related to old age, death, disability, unemployment or loss of health. Their use is widespread and ingrained, and they typically account for 30 to 40 percent of an individual's total compensation in the private sector. Flexibility in the choice of benefits is a significant trend in the private sector because of cost pressures on employers and because employees gain increased control over the level or mix of benefits received. Some of the more common benefits included in these plans are health insurance, disability income, time off with pay, and retirement.

In response to cost pressures and changes in family employment and income patterns, health care plans have become more flexible, offering different levels of coverage to meet the varying needs of families. For example, programs with "opt-out" and "high-low" choices allow dual-income families to buy the level of coverage they need and to choose their deductible. Medical savings plans, another trend in health care benefits, allow employees to convert a portion of taxable wages into a nontaxable fund for medical expenses that are not otherwise covered. Finally, some companies give "wellness rewards," such as cash or extra vacation time, to employees who file few or no medical benefits claims. Recent changes in military health care under the TRICARE system reflect some of these private sector trends by providing service members more choice among care levels while requiring them to share more of the costs of coverage.

Retirement programs are also changing. Employers offer increasing flexibility and choice in the plans, while transferring the risk and part of the financing cost to their employees. Typical retirement programs in the private sector fall on a continuum between defined-benefit plans (traditional pensions) and defined-contribution

plans [like 401(k)s], with most of them fitting toward the defined-contribution end of the scale. Noncontributory, defined-benefit plans, like the military retirement system, are becoming less common. Although traditional pension plans hold a number of advantages for employees (such as guaranteed nominal benefits, not subject to financial market fluctuations), they have significant financial disadvantages for employers, primarily their higher current expense and future risk.⁵⁸ In contrast, defined-contribution plans offer a significant cost advantage and lower risk to employers, because the company no longer has to fully fund the programs. Instead, employers match employee contributions each year at some predetermined ratio, and employees manage their own retirement portfolio.

For employees, defined-contribution plans offer the potential for building up a significant portable fund for retirement or other uses, without lengthy employment requirements. Although employers choose the plan provider, employees can choose among various investment options, such as stock or bond mutual funds, company stock, and so on. Of course, these plans shift the financial risk to the employees because the value of the fund is subject to market fluctuations and the wisdom of the investment strategies used.

Other flexible benefits seen in the private sector include paid sabbaticals, enhanced educational opportunities, leaves of absence for such family obligations as newborns or ailing family members, part- and flex-time work schedules and locations, and cost-sharing or personal-discount programs. Such plans offer employees the opportunity to tailor their benefits to suit their needs and to revise their choices as their needs change. The major disadvantages of flexible-benefits programs are that start-up and administrative costs of these systems can be high and, as with other benefits that offer choices to employees, the employees bear the risk if the benefits they selected fail to meet their needs.

Personnel Management

Personnel management is the component of human resource management principally concerned with the identification, assessment and development of the people needed for an organization to achieve its intended purpose.⁵⁹ Strategic issues in the area of personnel management include ensuring the acquisition and the development of an adequate supply of human resource talent; designing evaluation, selection and promotion systems; managing flows of people within the organization; and assigning key leaders to achieve desired strategic outcomes. Another important strategic aspect of personnel management is establishing and maintaining accurate feedback loops between the organization and its members.

Another important strategic aspect of personnel management is establishing and maintaining accurate feedback loops between the organization and its members.

⁵⁸ Employers can not know their exact future retirement liability under defined-benefit plans; it may be larger or smaller than expected if actual financial rates of return or payout rates differ from their projected values.

⁵⁹ Ian Clark, "HRM: Prescription, Description, and Concept," *Personnel Review*, Vol. 22, No. 4 (1993), pp. 17-25.

The Impact of Environmental Change on Human Resource Management

Personnel management in organizations using career-oriented systems is generally viewed as consisting of six basic elements or processes:⁶⁰

- Assessing, Selecting and Placing.
- Socialization, Training and Development.
- Performance Management.
- Career/Performance Planning.
- Succession Planning.
- Separating and Transitioning.

These elements are often further divided into specific programs or specialties.

The uniformed services employ each of these elements, although sometimes under different names.⁶¹ Table 2 summarizes these similarities.

Table 2 – Elements of Personnel Management and Their Application to the Uniformed Services

ELEMENTS OF PERSONNEL MANAGEMENT	APPLICATION TO UNIFORMED SERVICES
<i>Assessing, Selecting and Placing</i>	<i>Recruiting, Accessing and Placing</i>
<i>Socialization, Training and Development</i>	<i>“Basic Training,”⁶² Skill Training and Professional Development</i>
<i>Performance Management</i>	<i>Assigning, Evaluating and Retaining⁶³</i>
<i>Career/Performance Planning</i>	<i>Career Flows</i>
<i>Succession Planning</i>	<i>Promoting</i>
<i>Separating and Transitioning</i>	<i>Separating and Transitioning</i>

⁶⁰ This list delineates the elements and processes which large organizations generally establish. Other programs often cited include Health, Safety, and Security; Human Resource Information Systems; Employee Assistance Programs; Equal Employment Opportunity; Work Quality, Scheduling and Flexibility; Communication and Public Relations. Primary sources used in the selection of these elements included: (1) William P. Anthony, Pamela L. Perrewe, and Michele K. Kacmar, *Strategic Human Resource Management* (Orlando, FL: Harcourt Brace Jovanovich, 1993); (2) Mary Ann Von Glinow, Michael J. Driver, Kenneth Brousseau, and J. Bruce Prince, “The Design of a Career Oriented Human Resource System,” *Academy of Management Review*, Vol. 8, No. 1 (January 1983), pp. 23-32; and (3) William O. Blackwood, Sandra Ceccotti, Edward Kelly, Jennifer Martin, and Cindy Parker, *Literature Review on Motivation Theory, Human Resource/Personnel Management Theory, Strategies, Approaches, Systems, Structures, Principles and Elements*, report prepared for the 8th QRM by the Leads Corporation, November 1995.

⁶¹ Bernard Rostker, Harry Thie, James Lacy, Jennifer Kawata, and Susanna Purnell, *The Defense Officer Personnel Management Act of 1980 – A Retrospective Assessment* (RAND Publication R-4246-FMP) (Santa Monica, CA: RAND, National Defense Research Institute, 1992); Harry Thie *et al.*, *Future Career Management Systems for U.S. Military Officers* (RAND Publication MR-470-OSD) (Santa Monica, CA: RAND, National Defense Research Institute, 1994); Beth J. Asch and John T. Warner, *A Theory of Military Compensation and Personnel Policy* (RAND Publication MR-439-OSD) (Santa Monica, CA: RAND, National Defense Research Institute, 1994); briefings and discussions between the 8th QRM and RAND (Harry Thie, Claire Levy, Margaret Harrell, Monica Pinto, and Sheila Kirby) regarding ongoing studies for the Office of the Secretary of Defense and the Joint Chiefs of Staff concerning Enlisted Management and Future Warriors, March 1996.

⁶² Includes various initial entry courses and officer commissioning courses.

⁶³ Includes enlisted reenlistment programs and officer augmentation/continuation programs.

Although organizations consider generally the same set of elements, the relative importance organizations place on certain personnel management processes varies significantly from organization to organization. For example, some organizations, such as Sun Microsystems, Hannaford Brothers, and the Federal Aviation Administration, invest extensively in screening and selection processes. Other organizations, such as Xerox and Federal Express, focus on performance management measures; and yet others, such as Motorola and Hewlett-Packard, emphasize continuous learning and cultural fit. The uniformed services place a strong emphasis on the promotion system (in part, because of the related up-or-out policy), an emphasis not found in most other organizations.

This difference in emphasis leads, in fact, to a difference in the way parts of the personnel management component are viewed by the uniformed services, compared to the way they are viewed by other organizations. Figure 3 and Figure 4 depict the difference in emphasis from the perspective of the life cycle process used by the uniformed services. The focus in the uniformed services (Figure 3) on the promotion system is fundamentally different from the focus in other organizations (Figure 4) on succession planning. Although the processes within these two systems lead to the same ends (retention/separation and promotion/assignment), the kinds of policies and practices used are considerably different. For example, the uniformed services tend to place great emphasis on promotion, with professional development and assignment following from promotion. Other organizations tend to place greater emphasis on assessing individuals for assignment (which may include promotion, but not necessarily) to specific positions – in other words, promotion follows assignment. To a large extent, this difference is a function of the size of the uniformed services and the centralization of the promotion/assignment function; other organizations tend to decentralize these decisions.

... the relative importance organizations place on certain personnel management processes varies significantly from organization to organization.

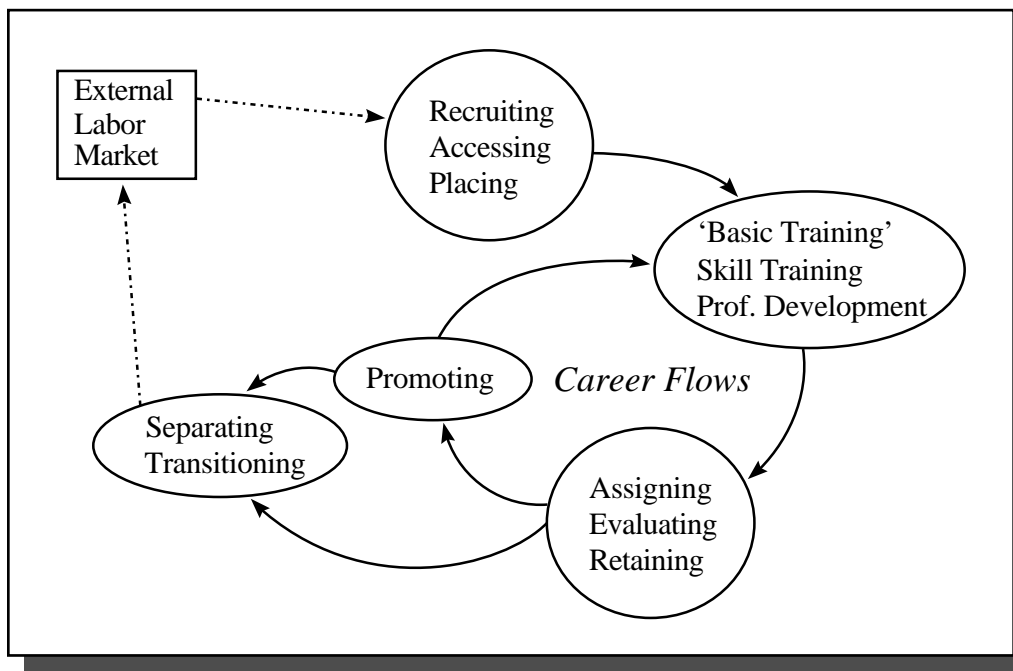


Figure 3 – Personnel Management Interrelationships in the Uniformed Services

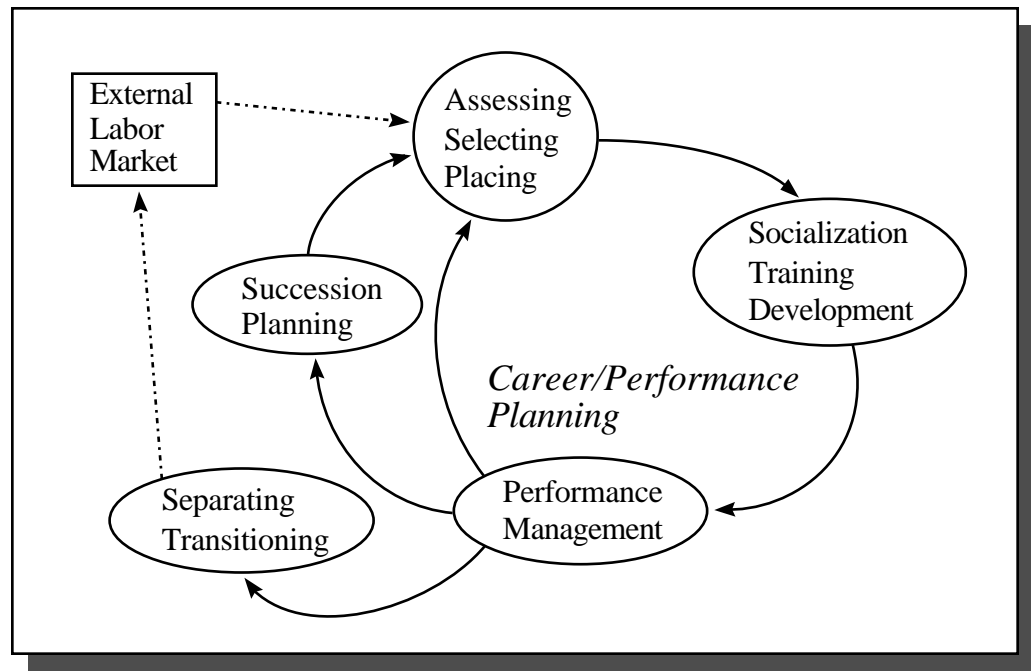


Figure 4 – Personnel Management Interrelationships for Career-oriented Systems

The remainder of this section discusses each of the elements of the personnel management component of the human resource management system. Literature reviews and observations of personnel management practices in other organizations identified numerous areas in which human resource management practices and methods were changing. This section also briefly highlights the most thought-provoking and innovative ideas that might apply to the uniformed services.

Assessing, Selecting and Placing

Organizations use the processes of assessing, selecting and placing (generally referred to as staffing in the literature) to consider people for employment. Staffing includes the procedures for soliciting prospective and current employees, determining applicants' qualifications, establishing the terms of employment and assigning people to specific positions or jobs.⁶⁴ Typical questions asked of this element include:

- Should the organization recruit and develop people or hire people who already possess the needed skills?
- Which labor markets should the organization target?
- Should the organization acquire people with specific behaviors and values or with specific abilities, education and experiences? ⁶⁵

⁶⁴ Anthony, Perrewe and Kacmar, p. 270.

⁶⁵ David Ulrich and Dale Lake, *Organizational Capability: Competing from the Inside Out* (New York, NY: John Wiley & Sons, 1990), pp. 79-80.

- Should the organization hire people to fit the organization or to fit specific jobs? ⁶⁶
- What organizational resources should be allocated for recruiting and selecting employees? ⁶⁷

Self-selection screening, behavioral screening and reengineering of the recruiting and retention processes are initiatives receiving increased consideration in other organizations.

Self-selection Screening

During a self-screening process, an applicant uses interactive software or an Internet link to “open the doors” of an organization and see the environment and job opportunities. Texas Instruments Corporation currently uses this type of tool to assess candidates’ professional and personal fit and introduces them to the company’s culture while providing career planning information. ⁶⁸ The U.S. Army Recruiting Command has used an interactive video disk to describe Army career fields for many years, as well as computerized mini-Armed Forces Qualifying Tests to obtain an estimate of aptitude; it has also begun sending electronic information on disks through the mail and over the Internet to prospective recruits and officer candidates.

Behavioral Screening

Behavioral screening, unlike aptitude screening, identifies applicants with desired personality characteristics. For many organizations, the ability to learn to perform specific tasks is not enough; people who add value to every process ultimately bring the most value to the company. Hill’s Pet Nutrition uses phone screening, role-playing exercises and a two-day workshop with peer employees to probe for desired behaviors. ⁶⁹ Additional behavior screening may be advantageous for the uniformed services. A recent study of Air Force enlisted personnel indicates certain personality characteristics, such as work orientation, dependability, cooperativeness and internal control, are highly correlated with overall performance. ⁷⁰

Reengineering Recruiting and Retention Processes

Addressing one element of personnel management can have beneficial impacts in other elements. The Army Reserve is considering major initiatives to improve retention, improve readiness and reduce the need for extensive recruiting programs. The goal is to reduce the historical annual attrition rate of over 30 percent. Initiatives include developing a life cycle vision, linking training to recruiting programs, outsourcing administrative functions, establishing community networking programs, obtaining

Self-selection screening, behavioral screening and reengineering of the recruiting and retention processes are initiatives receiving increased consideration in other organizations.

⁶⁶ David E. Bowen, Gerald E. Ledford and Barry R. Nathan, “Hiring for the Organization, Not the Job,” *Academy of Management Executive*, Vol. 5, No. 4 (1991), pp. 35-50.

⁶⁷ Anthony, Perrewé and Kacmar, p. 271.

⁶⁸ Gillian Flynn, “Attracting the Right Employees – and Keeping Them,” *Personnel Journal*, December 1994, pp. 44-46.

⁶⁹ James Champy, *Reengineering Management: The Mandate for New Leadership*, 1st ed. (New York, NY: Harper Business, 1995), p. 168.

⁷⁰ Stephan J. Motowidlo and James R. VanScotter, “Evidence that Task Performance Should Be Distinguished from Contextual Performance,” *Journal of Applied Psychology*, Vol. 79, No. 4 (1994), pp. 475-480.

Customer feedback, managing and valuing diversity, assessment centers and learning organizations are initiatives receiving increased consideration in other organizations.

local business involvement, and developing flexible benefit options (in health care, education, retirement, etc.) that better meet the varied needs of Army reservists.⁷¹

Socialization, Training and Development

Socialization (or indoctrination) introduces employees to the internal norms of the organization and what is expected of them. It includes an orientation on what types of attitudes and behavior are encouraged/discouraged and how information is communicated. Training is specific to each job or position. Development is broader in scope than training and focuses on the development of certain skills or competencies that can be applied to a range of jobs or positions. Development focuses on achieving the full potential of employee abilities and enhancing these abilities for the future benefit of both the individual and the organization. Positive management attitudes and progressive, timely development techniques facilitate the integration of organizational development with growth of the individual. Typical questions asked of this element include:

- What are the organizational core values and beliefs that all members must share?
- How can training generate organization-specific competencies?
- What training methods provide the best skill development?
- How are training and development programs evaluated to ensure present and future organizational success?
- How are the competencies required to succeed today and in the future identified, developed and managed?

Customer feedback, managing and valuing diversity, assessment centers and learning organizations are initiatives receiving increased consideration in other organizations.

Customer Feedback

The United States Air Force Academy uses a Customer Feedback Report Card to gauge the professional performance of graduates. Academy officials will use this feedback to refine their programs and help the Academy focus its efforts on providing the Air Force outstanding junior officers.⁷²

Managing and Valuing Diversity

In the future, managers will find themselves dealing not with diversity but with *unassimilated* diversity. It is this lack of assimilation that creates the challenge. In the past, a high level of assimilation had allowed organizations the luxury of having people who were different on the surface but homogeneous underneath. Now they must learn how to manage people who are different below the surface as well.⁷³ Increasingly, organizations realize, to succeed in a world of plurality, they must not only respect

⁷¹ Office of Strategic Analysis & Liaison, United States Army Reserve, discussions with 8th QRM, May 1996.

⁷² Colonel Victor C. Andrews, "'Customer Feedback' to Assess Academy Effectiveness," *Checkpoints*, Summer 1995, p. 15.

⁷³ R. Roosevelt Thomas, *Beyond Race and Gender* (New York, NY: AMACOM, 1991), p. 171.

differences but capitalize on them; not only familiarize themselves with differences, but take advantage of the enrichment gained through interactions with members having different backgrounds, experiences, perspectives and cultures. General Motors is adopting managing diversity as a personnel management strategy: “At GM, we look at diversity as a business issue, not a social, political, or legal issue.” Managing diversity is a holistic approach to creating a corporate environment allowing all people to reach their full potential in pursuit of corporate objectives. It is *not* a prepackaged set of solutions, nor is it a program for addressing discrimination.⁷⁴

Assessment Centers

An assessment center is a behaviorally based selection procedure that incorporates multiple assessments and multiple ratings of various behavioral dimensions that are representative of the job(s) or role(s) in question. An assessment center affords participants several opportunities to demonstrate the patterns of desired behavior. The Federal Aviation Administration conducts Air Traffic Control Specialist assessments during a week-long computerized screening session that “washes out” approximately 25 percent of the students at the end of the week. Hannaford Brothers conducted an analysis of the types of associates it was looking for and then created a system to recruit and screen them. It wanted team players – innovative, creative, and with demonstrated ability to apply learning. It developed simulations to observe behaviors during an intensive process lasting over eight hours.⁷⁵

Learning Organizations

Learning organizations employ a human resource philosophy that is key to their success: continual investment in upgrading the organization’s human assets and using them effectively. Moreover, the philosophy is distinguished not only by the type and the volume of human-asset investment it advocates, but also by the assumption that organization members will flourish only in an atmosphere of mutual trust and respect – the sort of trust and respect accorded to business partners or professional colleagues. General Electric has made extensive human capital investments as part of its renewal efforts. A decade after creation of its Workout Program, for example, GE now believes that it has obtained a significant return on its educational investment in strategic thinking, empowerment and partnering. Levi Strauss has done the same because it believes that human capital investment is the only way to “remain competitive in an uncertain future.”⁷⁶

Performance Management

Performance management is the process by which individuals receive direction, feedback and reinforcement for their performance within the organization. Evaluations can serve four purposes:

⁷⁴ Thomas, p. 167.

⁷⁵ Champy, pp. 190-191.

⁷⁶ Charles Garfield, *Second to None: The Productive Power of Putting People First* (New York, NY: Avon Books, 1992), p. 237.

Developmental and multi-source appraisals are initiatives receiving increased consideration in other organizations.

- Provide a basis to make decisions on promotion, transfer, demotion and termination.
- Validate selection instruments and training programs.
- Allocate rewards to employees.
- Provide feedback to individuals to assist in personal and career development.

An important factor in evaluations is who evaluates whom (and just as important, who does not evaluate whom). In a traditional organization, managers evaluate subordinates. In a team-based organization, team members often evaluate each other. In a customer service organization, customers often evaluate members and members often evaluate managers. Typical questions asked of this element include:

- What are the performance standards of individuals, groups and departments within the organization?
- What mechanisms exist to give feedback to members about how well their performance meets established standards?
- What purpose(s) do appraisals serve?
- What appraisal processes should be used to ensure accurate, meaningful and timely results?

Developmental and multi-source appraisals are initiatives receiving increased consideration in other organizations.

Developmental and Multi-source Appraisals

Multi-source appraisals provide sharply targeted information regarding how the boss, peers, subordinates, self and others perceive an employee. These appraisals differ significantly from the traditional supervisor-subordinate performance evaluations.⁷⁷ Instead of the rated individual's supervisor being the only rater of the employee's performance, the multi-source appraisal draws on information and perspectives from peers and subordinates that work with the rated individual daily. These appraisals focus on skills, competencies and traits; they measure the ratee's behavior, personality, the way he or she deals with people, ethics and leadership.⁷⁸

When properly done, the multi-source appraisal motivates behavioral change to align the ratee's behavior more closely to the needs of the organization. In 1995, approximately 75 percent of the Fortune 500 companies used multi-source appraisals in some manner.⁷⁹ These companies include DuPont, Procter & Gamble, The Travelers Group, Intel, Federal Express, and AT&T. At AT&T, for example, managers supervising three or more people have to go through an evaluation each year pegged to the company's values statement and must share the results with colleagues both up and down the organization.⁸⁰ Federal Express measures areas such as "leadership,"

⁷⁷ Catherine Romano, "Fear of Feedback," *Management Review*, December 1993, p. 38.

⁷⁸ Brian O'Reilly, "360-Feedback Can Change Your Life," *Fortune*, Vol. 130, No. 8 (October 17, 1994), p. 93.

⁷⁹ Susan H. Gebelein, "Best Practices: 360-Degree Feedback," presentation to the Society for Human Resource Development, 1995, p. 6.

⁸⁰ O'Reilly, p. 100.

“cooperation” and “decisiveness” with their Survey Feedback Action, a poll of employees’ judgments of their managers and associates.⁸¹

Proponents of multi-source appraisals debate whether the results should be used only for personal development or also for evaluation purposes (such as, determining raises, bonuses or promotions). Some studies indicate that multi-source appraisals are fairer than the traditional supervisor-subordinate evaluation regarding the measurement of behavior and job performance.⁸² Most companies use multi-source appraisals as a development tool.

Career/Performance Planning

Career/performance planning, in general, focuses on the career opportunities and choices available to employees and how they might move from one point to another in the organization. It includes both the opportunities explicitly stated by the organization and those informal norms that evolve over time. Typical questions asked of this element include:

- On what fundamental human resource management outcomes should career flows be based?
- How should a full career be defined?
- Should vertical and/or lateral development be encouraged?
- What role should the company have in the individual’s career?⁸³

Increased individual choice, integrated personnel systems, up-or-stay career paths, greater multi-skilling, and career stages are initiatives receiving increased consideration in other organizations.

Increased Individual Choice

Understanding career flows increases a member’s self-awareness and sense of identity. Taking responsibility for career development empowers the member to move forward, remain stable or step back from situations, if necessary. Managers who understand the importance of career development to all members are seen as supportive and understanding. Support for individual career development results in

- Reduced turnover.
- Marked increase of high-potential candidates for management positions.
- An increased sense of belonging to the organization.
- An awareness that the organization is supportive of individual growth and development.⁸⁴

Increased individual choice, integrated personnel systems, up-or-stay career paths, greater multi-skilling, and career stages are initiatives receiving increased consideration in other organizations.

⁸¹ Champy, p. 124.

⁸² Mark R. Edwards and Ann J. Ewen, “Moving Multisource Assessment Beyond Development,” *ACA Journal*, Winter 1995, p. 2.

⁸³ Margaret P. Palmer and Kenneth T. Winters, *Fundamentals of Human Resources*, 2nd ed. (New York, NY: AMACOM, 1990), pp. 118-119.

⁸⁴ Olivia Selinger, “Implementing a Career Development System,” *The REVIEW*, Vol. XI, No. 1 (February/March 1995), pp. 22-27.

Integrated Personnel Systems

Integrated personnel systems are often called “intra-organization lateral entry” systems. With this system, the organization can encourage entry from other career management systems within the organization. Within the uniformed services, some applications of this structure (often referred to as in-and-out) enjoy some limited acceptance. Some examples of integration in the current system are reserve component to active component or from enlisted to officer status.

Key to using an in-and-out structure is how much organization-specific knowledge is needed. This specific experience – acculturation in the organization – need not be at an early point in a person’s *skill* career but only before or immediately after entry into the organization. For example, if a military service needs an airlift pilot with 10 years of experience, does that need equate to 10 years of flying experience and six weeks of military experience or to 10 years of military experience and 3 years of flying experience? ⁸⁵

Up-or-stay Career Paths

Many organizations permit individuals who are performing well at a particular level to remain in the organization without the requirement to continue to be promoted. A system that allows individuals to gain depth and breadth in a specific field increases organizational performance and provides the opportunity to develop centers of excellence. A recent RAND study, for example, indicated that training costs for an “up and stay” system can be over 18 percent less than costs of the present defense officer personnel management system. ⁸⁶

Greater Multi-skilling

A recent independent British study recommended the elimination of four officer and several warrant/enlisted grades, as well as the adoption of greater multi-skilling within the British armed forces.

Rank recognises experience, competence and past performance. It also reflects an individual’s level of responsibility either for people or for equipment . . . Rank provides status and gives individuals a sense of pride and self-esteem. It also determines living conditions and other “quality of life” standards . . . The rank structure also provides visible reference points so that individuals know exactly where they and others fit into the organisation. . . . A formal rank structure is therefore clearly necessary in an Armed Service. However, . . . [t]here are clearly some weaknesses in the way the current structure is used. For example, rank is sometimes used inappropriately to reward technical skills . . . or by accelerating promotion of technical staff through the ranks. . . . There is also a degree of overlap in roles and responsibilities . . . most clearly seen at the senior

⁸⁵ Thie *et al.*, p. 81.

⁸⁶ Thie *et al.*, p. 178.

NCO and junior officer level and also among junior other ranks. . . . Looking forward to 2010, . . . it seems to us that the nature of the military task is changing. . . . Military operations are already calling for an increasing number and variety of skills. . . . Most organisations in industry, commerce, and government . . . have found that such ‘horizontal’ co-operation can be more effective if levels of authority are not emphasised and the number of layers is kept to the minimum.⁸⁷

Operations other than war and more frequent joint operations require individuals with multiple skills and abilities.⁸⁸

Career Stages

The British study also recommended dividing the career structure into three stages:⁸⁹

- Stage 1 – An initial engagement stage, containing the largest proportion of manpower in the services, would be designed to attract sufficient recruits with the right qualities and ambitions to merit progress into stages 2 and 3. Life in stage 1 would last approximately 8-12 years; however, the study recognizes there would be cases (for example, infantry, plus others) when a shorter length of time might be needed. In these cases, the report suggests some sort of follow-on phase while still in stage 1 until a complete evaluation of a career decision could be made.
- Stage 2 – At this point, service members’ careers would start to emphasize managerial roles, and opportunities for promotion would decline. Individuals would decide whether they would commit themselves to the services or to seek another career elsewhere.
- Stage 3 – In this stage (for the remaining personnel, normally senior commissioned and noncommissioned officers and warrant officers), proper development would be emphasized in addition to emphasis on the retention of the right people.

Succession Planning

Succession planning includes the processes needed to identify and develop individuals for strategic employee groups (including executive-level management) within the organization. These policies and practices, both stated and informal, exist in every organization, and determine who will lead the organization into the future. Typical questions asked of this element include:

- Besides executive positions, what other positions should be included in the strategic employee group?
- What characteristics will make a key employee in the future?

⁸⁷ Independent Review of the Armed Forces’ Manpower, Career and Remuneration Structures, *Managing People in Tomorrow’s Armed Forces: Report to the [British] Secretary of State for Defence* (London, England: HMSO, 1995), pp. 16-17.

⁸⁸ Commission on Roles and Missions of the Armed Forces, Chapter 2.

⁸⁹ Independent Review of the Armed Forces’ Manpower, Career and Remuneration Structures, pp. 31-32.

Performance/succession processes and behavior/performance grids are initiatives receiving increased consideration in other organizations.

- What competencies does a key employee need?
- How should the organization identify individuals who can learn the most from experience?
- Should the organization consider hiring executive talent or always “grow its own”?
- What kinds of experiences are best for developing key employees?

Performance/succession processes and behavior/performance grids are initiatives receiving increased consideration in other organizations.

Performance/Succession Processes

Xerox’s selection/performance management process consists of three main areas: a development system, a panel interview, and a management resources plan. The development system, geared towards all employees, addresses job related competencies, a current self-assessment, a learning plan, feedback and coaching by a manager, and validation; it is linked to a performance assessment. The panel interview, designed for management candidates, addresses “next job” competencies, a cultural dimension, leadership attributes, feedback and coaching by a manager; it is directly linked to succession planning. The management resources plan, designed for incumbent managers, addresses current and/or next-job competencies, multiple assessment sources, cultural dimensions, leadership attributes, feedback and coaching by a manager; it, too, is linked to key job succession planning.

Behavior/Performance Grid

Succession planning is generally not just related to performance. A number of organizations have formulated different means to portray the other dimensions that are important to success in the organization. For example, Xerox has developed the Behavior/Performance Grid to demonstrate the interaction between desired behaviors and performance. Those not meeting the cultural and leadership attributes,⁹⁰ even if they have relatively high performance, are considered for replacement (Figure 5).

⁹⁰ At Xerox, the management resources plan consists of eight cultural dimensions. The dimensions are:

- 1) Market connected – understanding the technological environment and competitive market requirements while also maintaining a customer focus.
- 2) Absolute results oriented – links short- and long-term goals while encouraging continuous improvement.
- 3) Action oriented – encourages taking calculated risks, and then to act quickly and decisively in response to changing circumstances.
- 4) Line drive – resists excessive bureaucracy, focuses on financial outcomes, and demands that managers assume responsibility for their decisions/results.
- 5) Team oriented – fosters open discussion and builds relationships across work groups and organizations, seeks solutions to conflict, understands when to use teams and when to use individuals.
- 6) Empowered people – delegates authority and resources, avoids decisions that could have been handled at lower levels, coaches and supports people, actively recognizes achievement, sets goals and monitors results (rather than telling people how to do things), and is a role model of self-management and empowerment.
- 7) Open and honest communication – fosters openness and trust through personal behavior, encourages feedback, dialogue, and information sharing, sensitive to the concerns and feelings of others, does not treat disagreement as disloyalty, and confronts conflict openly.
- 8) Organization reflection and learning – encourages sharing of knowledge, treats new ideas with respect, encourages others to learn from successes and failures, sees problems as learning opportunities, redirects action based on learning from past experiences, and becomes a role model for self-development.

General Electric under Jack Welch, who developed the initial form of this grid, is relentless in either getting managers to meet the stated behaviors or separating them.

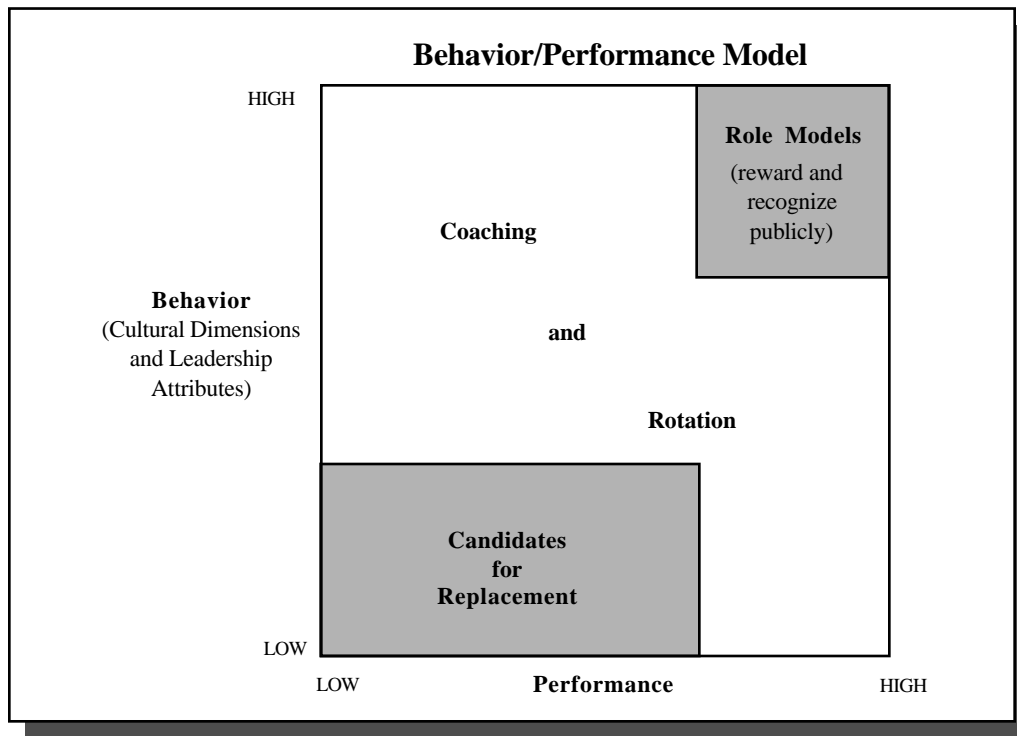


Figure 5 – Xerox Behavior/Performance Grid

Separating and Transitioning

The organization separates or transitions employees whose skills are no longer needed, whose performance is below expectations or whose behavior demonstrates values inconsistent with those of the organization. The rate of change of organizations' strategies and structures and the frequency of acquisitions have increased the probability employees will experience disruptive career transitions. Such changes include geographical relocation, transfers, demotions or being in a dead-end or plateauing career field. The organization's response may include:

- Retraining or transfer options.
- Alternative or part-time employment options.
- Separation or retirement options.

Generally, separations are costly. Organizations make substantial investments in their employees. Separation policies seek to identify and clearly distinguish those separations regarded as desirable or necessary and those regarded as undesirable. Also, separations are closely related to the hiring process, and in a sense they represent *negative hiring*. When an employee leaves, his or her departure generally creates a hiring action. Typical questions asked of this element include:

- What transition approach is used with marginal performers and with members whose values are inconsistent with the organizational culture?

- To what extent should intra-organization transfers be encouraged?
- What level of assistance and portability of benefits should the organization provide the individual to prepare him or her for a new career?
- To what extent should the organization maintain/encourage a relationship after an individual leaves?

In many ways, the uniformed services have set the standard for other organizations regarding transition programs.

Summary

All the ideas discussed above have potential applications to organizing, compensating and managing members of the uniformed services. However, before making changes to its human resource management system, any organization must address several fundamental considerations. These include determining what it seeks to accomplish by making the change and how the change aligns with the organization's culture and strategic objectives.

Many of the trends most widely discussed focus on compensation, and many of these appear to be potentially useful in the uniformed services. For example, pay for performance has gained momentum in the private sector during a time of intensive cost cutting and competition, and it might assist the services in dealing with similar challenges, like tighter budget resources. In addition, while the services currently differentiate some of their pays by skill, they may gain more leverage by paying for proficiency within skills or by paying for individual competencies or knowledge skills. Decentralizing authority to allow lower levels in the organization to make some types of pay decisions or monetary awards may also help motivate specific levels or types of performance. Finally, the recent advent of TRICARE offers service members more choice and flexibility in health care than has ever been offered before. This degree of choice could also be extended to other types of benefits.

Importantly, though, the compensation system is just one component of an organization's human resource management system. To be most effective, the compensation system must be aligned with the other components of the human resource management system – the personnel management system and the organizational design – and all must support the organization's strategy. For example, if working in teams is critical to organizational performance, the compensation system must be flexible enough to accommodate team-based pay components. If performance-based pay best supports the organizational strategy, the system must have performance measures that are widely accepted.

The approach proposed in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective* and the process developed in this part of the report provide the means for bringing together the kinds of policies and practices described in this subsection into an integrated human resource management system for the uniformed services aligned with specific organizational ends.

To be most effective, the compensation system must be aligned with the other components of the human resource management system – the personnel management system and the organizational design – and all must support the organization's strategy.

CHAPTER 2

A VISION OF HUMAN RESOURCE MANAGEMENT

We found it helpful to start our visioning process by establishing a mental context for thinking about what could be in the future. Our visioning is less about day dreaming and more about making fundamental choices about who we are or will become and what business we are in or will be in. It's really about awareness. We are concerned less about today, it's more about tomorrow. Our efforts are less about property, weapon systems or things, and more about people and their power and potential. We are thinking less about entitlements, and more about contributions. We are holding in our minds less about what is and more about what could be. It is less about keeping what is and more about moving toward something; it's about momentum. ¹

The purpose of vision is to guide the organization in the direction desired by its leadership so that each person at every level can share and contribute to moving the organization toward its desired goals.

An organization benefits from a vision. It benefits from a vision for the enterprise, setting the overall direction; and it benefits from visions for its component parts. It benefits, in particular, from a vision for human resource management. As such a vision is discussed in this chapter, it refers to the field or discipline of human resource management as it applies within an organization. A strategic approach to human resource management requires a vision.

A vision of human resource management establishes the guiding philosophy for how the function will do business and offers a vivid description of how the function will manifest itself in the future operating environment of the organization. For people engaged in conducting the business of human resource management, vision provides focus, excitement, energy and commitment to the achievement of organization outcomes; and it provides personal satisfaction. The purpose of vision is to guide the organization in the direction desired by its leadership so that each person at every level can share and contribute to moving the organization toward its desired goals.

This chapter presents a vision of human resource management for the uniformed services. The members of the 8th Quadrennial Review of Military Compensation developed this vision. This is not the preferred approach. The most effective visions – for an organization or for a part of the organization – are developed, if not with the participation of all the members affected, at least with the participation of representatives from all levels of the organization. In addition, for an effective vision, the organization's leaders must *want* a vision. They must communicate the need and purpose of the vision. And they must devote time and resources to its development. Consequently, the vision this chapter presents is an *example* of what a vision for human resource management might look like; it is a vehicle that the uniformed

¹ Lieutenant Colonel James Woodard, 8th QRM Briefing, February 22, 1996.

services can use to develop their own vision for human resource management. So, although the vision presented in this chapter is not offered as a recommended vision, it could be.

Appendix I describes the method used by the 8th Quadrennial Review of Military Compensation to develop that vision. The method is based largely on the work of Collins and Porras.² It consists of two basic perspectives: an overall guiding philosophy³ – a foundation that preserves what is good about the organization; and a vivid tangible image⁴ of what the organization wants to be in the future – goals and other mechanisms that motivate change toward the desired image.

Developing a vision for human resource management also requires an understanding of the context in which it exists; this context includes the department and service visions and the environment. Published Department of Defense and service documents plus meetings with selected service officials provided an understanding of their core values and beliefs as well as their views regarding alternative future environments. The department and the services used various methods for developing their visions. Appendix II summarizes these visions in a common format. The vision of human resource management described below was developed in this context.

Guiding Philosophy and Tangible Image

Leaders articulate a guiding philosophy as the first step in developing a vision of human resource management in the 21st century. The guiding philosophy is similar to the fundamental ideas of a great nation, church, university or other enduring institution. It is a set of basic beliefs that states, in uncompromising terms, “this is who we are; this is what we stand for; this is what we’re about.”⁵ The guiding philosophy forms the foundation for decision making regarding human resource management.

Two components define guiding philosophy: the core values and beliefs, and the purpose. Leaders do not compromise core values and beliefs for short-term expediency. These values and beliefs must stand the test of time. Purpose states the fundamental reason the organization exists - a perpetual guiding star on the horizon.⁶ Defining the purpose of human resource management highlights its importance and describes its potential power for bringing about organizational success. To make a difference in the behaviors of people, they must passionately hold the core values and beliefs and the purpose at a “gut” level.

The guiding philosophy forms the foundation for decision making regarding human resource management.

² James C. Collins and Jerry I. Porras, “Organizational Vision and Visionary Organizations,” *California Management Review*, Vol. 34, No. 1 (Fall 1991), pp. 30-52; and James C. Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies* (New York, NY: HarperBusiness Publishers, 1994).

³ Collins and Porras also used the term “core ideology” to describe the first step in developing a vision for an organization. “Guiding philosophy” was introduced in “Organizational Vision and Visionary Organizations.” “Core ideology” was introduced in their subsequent book about visionary organizations, *Built to Last*. The term “guiding philosophy” is used throughout this report.

⁴ Similar to the explanation in the previous footnote about Guiding Philosophy and Core Ideology, the term “Tangible Image” from “Organizational Vision and Visionary Organizations” is used over “Drive for Progress,” which was introduced in *Built to Last*.

⁵ Collins and Porras (1994), p. 54.

⁶ Collins and Porras (1994), p. 73

The tangible image describes how the human resource management function will operate in the future.

The core values and beliefs and the purpose provide the continuity and stability needed by an organization to endure when all else is changing.

After articulating the guiding philosophy, the next step is to develop a vivid picture – a tangible image – of human resource management in the future. The tangible image describes how the human resource management function will operate in the future. In contrast to the guiding philosophy (which provides a firm foundation from which to launch change), the tangible image engenders the motivation to change.

Both guiding philosophy and tangible image are necessary and complement each other. The tangible image gives expression to the guiding philosophy as well as a focus toward which to move. The guiding philosophy is a base of continuity from which the organization can evolve, experiment, and change. “[E]ach element enables, complements, and reinforces the other.”⁷

Making Organizational Vision and Strategy a Reality

An architect must be capable of dreaming of things not yet created - a cathedral where there is now only a dusty plain, or an elegant span across a chasm that hasn't yet been crossed. But an architect must also be capable of producing a blueprint for how to turn the dream into reality. An architect is both a dreamer and a draftsman. An architect marries art with structural engineering.⁸

The remainder of this chapter describes the major components of a vision for human resource management: the guiding philosophy and the tangible image. The description is brief. It is suggestive, not definitive. However, the ideas are likely to be close to those that would result from the department or the uniformed services (or any other organization taking a strategic approach) developing a vision of human resource management.

Guiding Philosophy of Human Resource Management

... people are the only sustainable source of competitive advantage.

People provide the uniformed services with an unlimited source of potential. As important as technological, physical and financial resources are to ensuring a successful organization, people are the only sustainable source of competitive advantage. The value of the capabilities provided by other resources can be matched by potential adversaries or can erode in the face of a changing environment. The capacity of people to learn and to work together in high-performing organizations, however, makes them a much more flexible and valuable resource. People are a multiplier, offering significantly more leverage than other resources.

⁷ Collins and Porras (1994), p. 85.

⁸ Gary Hamel and C. K. Prahalad, *Competing for the Future* (Boston, MA: Harvard Business School Press, 1994), p. 107.

In the future, the uniformed services, like other organizations, will measure the value of service members by their ideas and their ability to translate ideas into actions. “In the New (Knowledge) Economy . . . work has to do first with ideas and knowledge, rather than products and services.”⁹

The way an organization treats people creates a context. An organization that believes its people are important will treat them in a way that builds trust. An organization needs to be truthful to people about what it expects of them. It must respect individuals who offer their own ideas, intellectual capital, feelings and choices as assets to the organization. Therefore, the first statement of the guiding philosophy is:

People are our most valued, dynamic resource. Their potential – especially of their minds – is the key that unlocks the organization’s future possibilities. Treat people truthfully and with respect.

Because organizational outcomes are seldom brought about by individuals, the human resource management function exists to meld people together in ways that achieve organizational success. This is its fundamental reason for being. The human resource management function provides value to the organization only to the extent it accomplishes activities that contribute to the organization’s goals and objectives. These contributions start with attracting the right kinds of people; however, the more important contributions flow from the ability to motivate them effectively in accord with organizational ends. Therefore, the second statement in the guiding philosophy is:

Human resource management exists to attract people willing to render service to the Nation and to meld them into a source of mission accomplishment and national pride.

Fundamental choices in the design of the human resource management system make a real difference in the type of people attracted to an organization and in the quality of their performance. These choices include how to manage people, how to organize and reward them and how to establish relationships between them and people inside and outside of the organization. These fundamental choices are based on the organization’s view of its people and how it will employ their capabilities. Once selected, these choices should guide the practices of the organization and become a lasting artifact of the organization’s culture, history and policies. Once established, leaders should frequently and publicly communicate them through the organization. These choices do not change, except in extraordinary circumstances when the environment requires a substantial re-evaluation of the way the human resource management system does business.¹⁰ Therefore, the third statement in the guiding philosophy is:

Human resource management choices about organizing the enterprise and managing and rewarding people affect individual and unit performance.

An organization that believes its people are important will treat them in a way that builds trust.

The human resource management function provides value to the organization only to the extent it accomplishes activities that contribute to the organization’s goals and objectives.

Fundamental choices in the design of the human resource management system make a real difference in the type of people attracted to an organization and in the quality of their performance.

⁹ Alan M. Webber, “Surviving in the New Economy,” *Harvard Business Review*, Vol. 72, No. 5 (September-October 1994), p. 91.

¹⁰ Lawler (1990), p. 39.

Figure 6 summarizes the guiding philosophy for human resource management. As noted above, it identifies and preserves what is best about human resource management in the uniformed services. Although the uniformed services may not carry out the activities associated with these statements of guiding philosophy as effectively as they might like, they would subscribe to most, if not all, of the core values and beliefs.

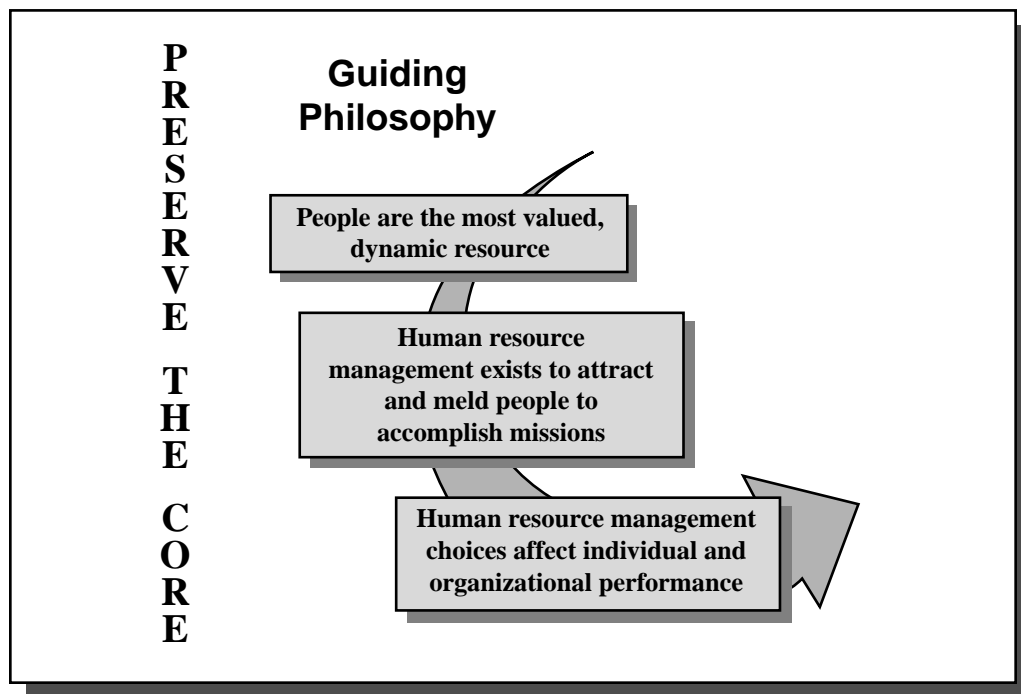


Figure 6 – Guiding Philosophy for Human Resource Management

A vivid picture of what the desired future looks like can stimulate and direct that change. That is the purpose of a tangible image.

But at the same time, vision is about change, about what the organization wants to become. A vivid picture of what the desired future looks like can stimulate and direct that change. That is the purpose of a tangible image.

Tangible Image of Human Resource Management

What might human resource management look like if the department chose to employ a strategic approach? What would necessarily be different from today – different even in terms of what is desired today? What should the major focus of human resource management be? These are the questions underlying a tangible image of human resource management.

In the future, human resource management must focus on the organization's goals and measures of organizational success. The human resource management function must understand the desired organizational outcomes and must determine how policies

The most effective human resource departments are those in which human resource management policies and activities are established in congruence with the mission and specific objectives of the organization.¹¹

¹¹ H. John Bernardin and Joyce E. A. Russell, *Human Resource Management: An Experiential Approach*, (New York, NY: McGraw-Hill, 1993), p. 15.

and practices contribute to achieving them. Human resource management must manifest new characteristics to focus effectively on achieving organizational outcomes; it must:

Formulate strategic direction. The human resource management function needs to participate actively in decisions about the organization's strategic direction. Human resource management capabilities must influence the direction taken, not simply be defined as a result of strategic needs.

Communicate organizational goals. The effect of the human resource management system must be recognized and accepted; it influences what members do and how they do it. The messages sent by the policies and practices of the human resource management system should reinforce the commander's intent. "Human resource management practices should be the mechanisms used to focus people on the strategic issues in the organization."¹²

Vertically align human resource management policies and practices to organizational strategies. Policies and practices should reinforce an organization's chosen strategy.

Horizontally align various human resource management policies and practices. Human resource leaders must coordinate policies and practices across components – compensation, personnel management and organizational design. Policies and practices that are not coordinated send mixed signals to service members and create forces that encourage conflicting behaviors.

Identify, communicate and reinforce desired behaviors. To ensure the desired behaviors are the norm, leaders must identify and communicate what they are; then, human resource leaders must design and implement human resource management policies and practices to reinforce them.

Shape organizational culture. The human resource management system should reinforce the core values and beliefs. The messages inherent in the organization's policies and practices should be consistent with what is core in order to foster the desired organizational culture.

The human resources department communicates and helps shape a corporation's culture – what the norms, the practices and the way of life at the company are.¹⁴

HR practices such as selection systems, management and development, communication and goal setting convey and reinforce the firm's core ideology. These practices signal what is most important to learn and do to succeed in the company.¹³

Values and beliefs, when reinforced consistently, become part of a organization's identity and are reflected in the behavior of its people. So human resource policies and practices effect the guiding philosophy of the organization.

Values and beliefs, when reinforced consistently, become part of a organization's identity and are reflected in the behavior of its people.

¹² Bernardin and Russell, p. 39.

¹³ Patricia K. Zingheim, Gerald E. Ledford and Jay R. Schuster, "Competencies and Competency Models: Does One Size Fit All?" *ACA Journal*, Vol. 5, No. 1 (Spring 1996), p. 57.

¹⁴ Craig Nathanson, "Three Ways To Prove HR's Value," *Personnel Journal*, Vol. 72, No. 1 (January 1993), p. 19.

The human resource management system should be used as one of the ways – one of the most important ways – to communicate what change needs to happen.

Facilitate organizational change. On the other hand, motivating behavior consistent with the “old way of doing business” will inhibit or preclude desired change. So policies and practices should be designed to move toward the tangible image, as well. The proper set of human resource management policies and practices can enhance the capacity of an organization to change.¹⁵ The human resource management system should be used as one of the ways – one of the most important ways – to communicate what change needs to happen. The human resource management function can motivate service members to bring about change.

In most organizations, people won't believe that you are serious about major change until you start to change the compensation system. Moreover, changing compensation is one of the keys to changing behavior.¹⁶

Purposefully adapt to the environment to maintain effectiveness. Stable environments in the past allowed human resource management systems to remain relatively invariant over time. However, the effectiveness of policies and practices is influenced by the context – both within and outside the organization – in which it operates. The human resource management function needs to develop the ability to improve its effectiveness continually. The human resource management function needs to re-invent itself frequently to provide what the organization needs to its goals – even as the world around the organization is changing.

Based on the above, the first statement of the tangible image is:

Human resource management focuses on achieving organizational outcomes.

Commanders and leaders must take ownership of human resource management in their daily activities. Leaders have always been entrusted with the management and the use of resources. Typically, however, they have had very limited access to the human resource management practices that would enable them to manage people. The CEO of Tenneco reinforced the correct view of the ownership of human resource management when he stated, “I’m the head human resource guy.”¹⁷

The strategic human resource management approach views all managers as human resource managers. [Human resource management] issues are not simply the province of the human resource [function]. Rather, all managers must take responsibility for efficient and effective utilization of their subordinates.¹⁸

¹⁵ Bernardin and Russell, p. 39.

¹⁶ Sandra O’Neal, “Reengineering and Compensation: An Interview with Michael Hammer,” *American Compensation Association Journal*, Vol. 5, No. 1 (Spring 1996), p. 9.

¹⁷ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

¹⁸ Anthony, Perrewé and Kacmar, p. 16.

From this perspective, the human resource management function exists to help commanders and leaders. It brings expertise that must be shared with the “customers” – the operators. But the expertise must be offered in a context of what is important and useful to these operators, not held as precious knowledge not fit for the uninitiated. This calls for open, responsive partnerships. Therefore, the second statement in the tangible image of human resource management in the 21st century is:

Human resource leaders partner with commanders and leaders to develop policies and practices that achieve desired behaviors.

The primary responsibility for managing human resources rests with leaders who are accountable for understanding, defining and implementing management practices that build organizational competencies. Human resource professionals may play partnership roles in designing management practices, but theirs is not the primary role.¹⁹

Therefore, leaders need to become competent in using human resource management policies and practices to accomplish their ends. Just as effectively employing doctrine and tactics is a leadership competency, likewise, managing people to accomplish a mission is a leadership competency.

The third statement of the tangible image is:

Leaders rely on the human resource management system to continually improve organization performance.

Leaders improve organizational performance when they:

Facilitate organizational learning. Individuals learn, and this enhances their performance. Organizations also learn, and this enhances organizational performance. Organizational learning is more than the sum of individual learning; it makes for great organizations. Capturing the potential for organizational learning will establish the services as a benchmark other organizations will emulate. Real power resides in the ability to bring about organizational learning.

Reinforce organizational goals. Leaders must use human resource management policies and practices to reinforce organizational goals. The policies and practices must support the accomplishment of those activities whose completion is most critical to the long-term survival and effectiveness of the organization.

Develop and leverage competencies of people. Service members, singularly and together, produce organizational outcomes. To increase each service member’s capabilities, leaders must develop their people through training, education, experiences, etc. The focus must be on the competencies – that include behaviors and other actions – not just the skills, knowledge and abilities.

Organize flexibly around work. Leaders must look at the work to be performed and then organize the people and tailor the organizational structure in ways that best achieve the desired outcome. The organizational structure should facilitate

Just as effectively employing doctrine and tactics is a leadership competency, likewise, managing people to accomplish a mission is a leadership competency.

¹⁹ Ulrich and Lake (1990), p. 78.

the collaborative activities of service members in different subunits and functional areas of the organization.

Assess and redesign work. Leaders must look at the work to be performed and ask, “Why are we doing this?” If the work does not help the organization achieve its strategic goals, then it should be eliminated. The second question leaders must ask is, “Can the work be done a better way?” If it can, leaders redesign the work to achieve performance, cost and/or organizational benefits.

Develop a work environment that enables and involves people. Leaders must strive to create an environment that empowers and involves people. This type of environment encourages people to take prudent risks in thinking about and offering suggestions on how the organization might do things differently, better, or more effectively.

Manage behavior and performance. More than recognizing and rewarding behavior and performance, leaders must communicate what they want service members to do in terms of organizational outcomes. This involves recognition, feedback, development and shared goals.

Figure 7 summarizes a vision of human resource management for the uniformed services that supports the recommendations in this report.

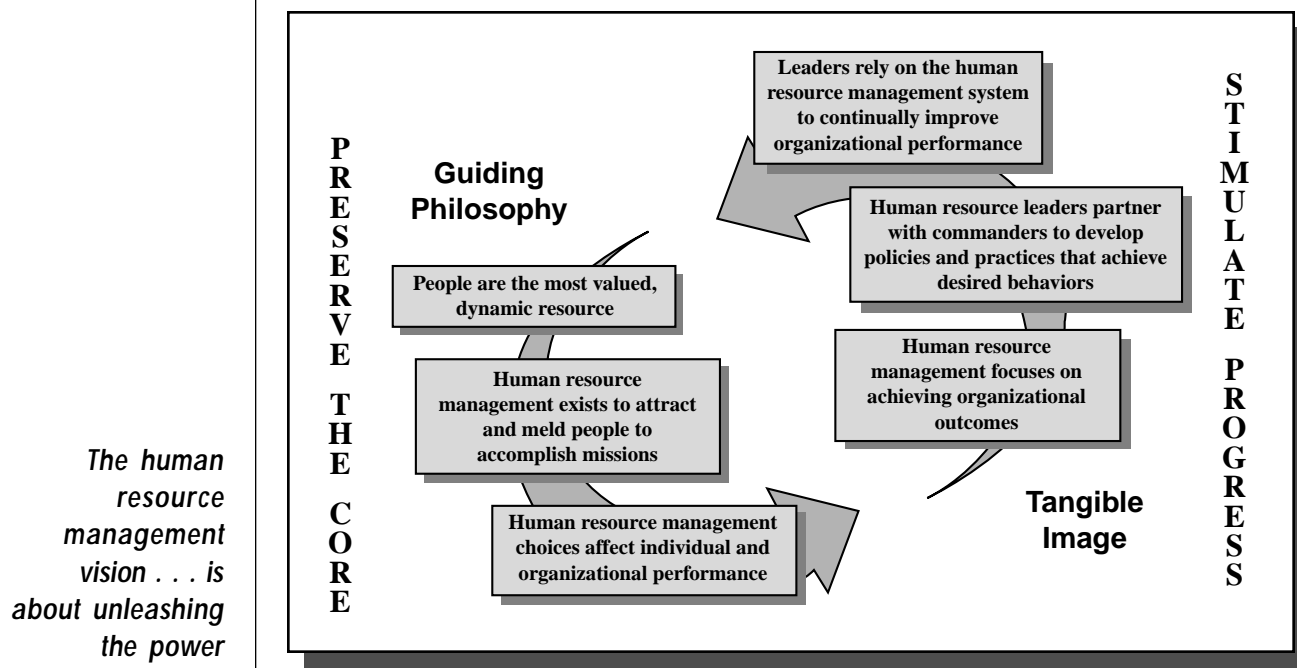


Figure 7 – Summary of the Vision for Human Resource Management for the Uniformed Services

The human resource management vision is not about obtaining people with better skills, or doing more with less; rather, it is about unleashing the power and potential within people to contribute fully to outcomes important to the department and its subunits. Therefore, the vision implies changes – changes to the way the department organizes and manages people; changes to the way the department rewards, promotes, recruits and trains – in short, changes to the department’s *culture*.

A vision of human resource management for the uniformed services serves two overarching purposes. First, it explicitly articulates, at the broadest level, the underlying, fundamental beliefs and purpose of human resource management. In the absence of such an explicitly stated philosophy, human resource leaders are often forced to make assumptions about what policies and practices are appropriate in the tactical environment in which they operate – if they think about it at all. Second, a vision identifies ways to progress toward achieving desired outcomes and creates a vivid image of future possibilities that all service members can share and help achieve. It establishes a way of characterizing what the human resource management function defines as successful policies and practices.

We are systematically taking our vision and our values and trying to make them a reality in how we run the place; it's tortured, difficult and aggravating because often you discover you've done things you wish you hadn't.

– Paul O'Neill
Chairman and Chief Executive Officer
Aluminum Company of America ²¹

Working Toward the Vision

This vision represents an image of what the human resource management function *could be* in the future. It depends on the desire and commitment of human resource leaders to shape the future, to see a future that does not yet exist. Human resource leaders must connect the vision to specific actions that need to be accomplished.

The greatest power of vision is its ability to excite and unite people within an organization in a common effort that results in the attainment of the organization's purpose, mission, vision, strategy and full potential. It allows people to see possibilities for the organization in the future that

We have spent quite a bit of time thinking through what our vision statement is, what values and principles we operate under. We really believe that the vision drives people more than anything else.

– Joseph Neubauer
Chairman and Chief Executive Officer
ARAMARK Corporation ²⁰

are not visible in current reality. People begin to want the organization to be the way they can visualize it through the vision. They become eager to expend their every working hour completing tasks and missions that move the organization toward the image created in the vision. Vision represents the best that could happen to the organization – starting now and extending into the future.

Vision represents the best that could happen to the organization – starting now and extending into the future. Visions are about change.

Visions are about change. Change is difficult. Usually it takes a crisis to mobilize an organization to start down the path of change. The uniformed services do not face a crisis today.

²⁰ From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

²¹ "In Search of Ethics, Alcoa Pursues a Corporate Conscience Through Emphasis on 'Core Values,'" *Washington Post*, March 31, 1991, pp. H1, H4.

A Vision of Human Resource Management

. . . in the best organizations, visions are also about opportunity.

But in the best organizations, visions are also about opportunity. The vision described above, consistent with the strategic approach to human resource management recommended in this report, affords an opportunity – in the absence of a crisis – to facilitate change in the strategic direction, to make leaders more effective, and to enhance organizational performance. Organizations that have failed to create opportunities have sooner or later faced a crisis that has required change. Perhaps the next crisis to face the uniformed services can not be identified today – but it will come.

The time to think about change is when you're at the top of the game, because at that time you have alternatives. Don't wait until you're on the downside and get forced into a crisis and into decisions that may not be the best.

– *General Richard D. Hearn*
Assistant Commandant
*United States Marine Corps*²²

²² From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

CHAPTER 3

HUMAN RESOURCE MANAGEMENT

GENERAL SYSTEM DESIGNS

In recent years, as organizations' operating environments became more complex, large diverse organizations began moving from the rigidity of one-size-fits-all systems toward human resource management system designs tailored to achieve the strategic objectives of the different operating units.

Leaders design human resource management systems in the larger context of the organization's vision, its strategy and its environment. This chapter describes three *general system* designs: one-size-fits-all, tailored flexibility and each-to-its-own. It recommends the tailored flexibility design for the uniformed services. As noted in Chapter 1, contingency theory implies no one human resource management system design best serves all organizations. This suggests that different subunits of a large, diverse organization may require different human resource management systems or, alternatively, a system with sufficient flexibility to meet subunit needs. The decision as to how much authority the organization should delegate to its parts in the design of human resource management systems is, like its vision, a responsibility of the enterprise at its most senior level.

Until recently, organizations tended to exhibit a human resource management system design in which a common set of policies and practices applied throughout the entire enterprise (including all its subunits) – “one-size-fits-all.”¹ This was usually effective when the environment, strategy, etc., were the same for all the components of the organization; and it generally delivered advantages in such an environment (for example, economies of scale) that returned a significant reward.

In recent years, as organizations' operating environments became more complex, large diverse organizations began moving from the rigidity of one-size-fits-all systems toward human resource management system designs tailored to achieve the strategic objectives of the different operating units (subunits). Complex, multi-business organizations (that is, those facing multiple environments by design) are also fairly recent (mostly post-WWII), as are the means to cope with variety in the human resource management system (primarily financial and information systems).² In the conceptual extreme, each operating unit establishes its own human resource management system – “each-to-its-own” – in the context of its unique environment with common policies and practices arising throughout the organization only by happenstance.³

Human resource management system designs for most large organizations now fall along a continuum between these two poles – “tailored flexibility.” The tailored flexibility system design seeks to balance – through the policies and practices of the

¹ A “one-size-fits-all” system design means the entire enterprise relies on the same aligning mechanism (organizational strategy, core processes, work cultures) and applies the mechanism in the same way to focus the *design* of the human resource management system. Although this human resource management system might be *applied* differently by different parts of the organization, the system design is fundamentally the same.

² Michael S. Wenger, “Comments: Take 2,” electronic mail message, September 3, 1996.

³ Large holding companies and agencies that have little need to engage in either the operation of their strategic subunits or the associated human resource management systems are most likely to exhibit “each-to-its-own” human resource management system designs.

human resource management system – the ever-present, necessary tension in large organizations between the strategic needs of the enterprise and the strategic needs of the different operating units.⁴ The corporate level may rely on a greater or lesser number of core policies and practices to accomplish its ends, thus allowing for varying degrees of individuality among the human resource management systems of the subunits of the organization.

Sonnenfeld and Peiperl⁵ predict that future organizations will have separate human resource management systems for different functional areas, different businesses, etc. However, they caution, each enterprise “should exhibit one modal type of system, which we would expect to be the kind most closely connected with the base, or primary business [focus] of the enterprise.” The idea of a flexible system with a “common core” is the essence of the tailored flexibility design.

Leaders in a large organization choose different human resource management general system designs based on the characteristics of the organization and its environment. For example:

- A single, interrelated enterprise, closely tied together to accomplish a common end, tends to choose a one-size-fits-all design.
- An enterprise composed of an aggregation of distinct but related subunits that operate relatively independently, in a particular “market,” producing different products or services generally benefits from choosing a tailored flexibility design.
- An enterprise that is an aggregation of unrelated subunits that operate primarily independently in their individual markets (for example, a holding company) tends to choose an each-to-its-own design.

Given the size and diversity of the Department of Defense, the tailored flexibility design appears most appropriate for the uniformed services of the future.

Table 3 summarizes the descriptions of each of the general system designs.

Leaders in a large organization choose different human resource management general system designs based on the characteristics of the organization and its environment.

⁴ According to Porter, many diversified enterprises have neglected this tension, in general, and have devoted little or no attention to coordinating business unit strategies, even though the synergy obtainable by doing so constitutes a major potential source of competitive advantage. Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York, NY: Free Press, 1985), p. 364.

⁵ Jeffrey A. Sonnenfeld and Maury A. Peiperl, “Staffing Policy as a Strategic Response: A Typology of Career Systems,” *Academy of Management Review*, Vol. 13, No. 4 (October 1988), p. 597.

Table 3 – Human Resource Management System General System Designs

	ONE-SIZE-FITS-ALL	TAILORED FLEXIBILITY	EACH-TO-ITS-OWN
Organizational relationships	High degree of integration (single product or service).	Varying degrees of integration (multiple or related products or services).	Little or no vertical or horizontal integration (multiple or unrelated products or services).
Design responsibility	Corporate level develops aligning mechanism.	Corporate level develops aligning mechanism and provides functional guidance. Subunits each select the specific organizational strategy ⁶ to be used.	Subunits develop aligning mechanism. Subunits each select the organizational strategy ⁶ to be used.
Human resource management policies and practices	Common set of policies and practices throughout the organization. Variation in application only.	Limited common set of core policies and practices throughout the organization. Subunits develop tailored policies and practices.	Subunits develop tailored set of policies and practices.

A review of general system designs in large private corporations and public sector organizations (those with over 100,000 employees) reveals that tailored flexibility design is the most prevalent. Details, illustrations and examples for each of the three general system designs follow.

Under a one-size-fits-all design, human resource management policies and practices are based on a single, or common, corporate strategy.

One-size-fits-all

Under a one-size-fits-all design, human resource management policies and practices are based on a *single*, or common, corporate strategy. This strategy applies, implicitly or explicitly, to all elements of the organization. The human resource management system is then designed to achieve vertical integration based on the overall corporate purpose, mission and vision as well as to ensure horizontal integration across strategic subunits. Little or no variation is allowed in the design of the human resource policies and practices in different parts of the organization. Although the human resource management system might be *applied* differently by different parts of the organization, the system design is fundamentally the same.

⁶ The aligning mechanism is the vehicle around which the human resource management system is designed; when referring to the design of human resource management system at the subunit level, this report uses “organizational strategies” as a specific instance of this mechanism to make the discussion explicit. When referring to the corporate level, however, “organizational strategies” appear to be less useful, as a method for aligning the elements of the human resource management system, than the other approaches discussed, such as core competencies, work cultures, etc. Although this is particularly true for a one-size-fits-all design, it is also true for the corporate level of an organization using tailored flexibility – especially an organization as diverse as the uniformed services.

Characteristics

A one-size-fits-all design exhibits the following characteristics:

- The corporate level selects the aligning mechanism.
- The corporate level designs human resource management policies and practices.
- Subunits implement the policies and practices.

For the uniformed services, this general system design suggests that the Department of Defense would select a common aligning mechanism (based on core competencies, core processes, work cultures or organizational strategies, etc.) and specify how that aligning mechanism would be employed. For example, if organizational strategies were selected as the aligning mechanism, the Department of Defense level would select the organizational strategy around which the human resource management system would be aligned (for example, military effectiveness). It would design the policies and practices that would comprise that human resource management system. The separate uniformed services and their subordinate parts (for example, major commands) would implement those policies and practices, perhaps with some limited flexibility in how they were applied.

Such a system would have the very substantial advantage of reinforcing a common military culture, not only across the different services, but within the services, as well. But this important advantage would also make change all the more difficult to implement; the more pervasive a common culture throughout an organization the size of the uniformed services, the more difficult the challenge to initiate change in one part, no matter how compelling the rationale for doing so.

Some would suggest the current uniformed services human resource management system is a one-size-fits-all. This was not a conscious decision, as the system was clearly not designed with an explicit human resource management strategy in mind. In fact, the human resource management systems of the separate military departments evolved somewhat independently until the Department of Defense was established in 1947. Over time, the primary effort has been to move toward a common system. But differences continue to exist, and these differences are periodically widened by the unique needs of the services. In terms of the authority to implement change to the human resource management system, however, substantial oversight is carried out at the Department of Defense level, though with substantial participation of the individual services. From this perspective, the current system falls largely in the one-size-fits-all camp. However, as noted in the following section, an argument can be made, as well, that the current system has aspects of a tailored flexibility design (though again, unintentionally).

Examples

Large organizations have been moving away from one-size-fits-all designs.

The **DuPont Corporation**, for example, has a long paternalistic tradition of taking care of its own. Corporate control of human resource management policies and

. . . the more pervasive a common culture throughout an organization the size of the uniformed services, the more difficult the challenge to initiate change in one part, no matter how compelling the rationale for doing so.

Under a tailored flexibility design, a common set of core human resource policies and practices are developed to achieve vertical integration based on the overall corporate purpose, mission and vision as well as to ensure horizontal integration across strategic subunits . . .

. . . however, different parts of the organization tailor the design of some specific human resource policies and practices to accomplish strategies more appropriate to their effectiveness and success.

practices has resulted in employees viewing the company as a comfortable place to work with a rich package of benefits and an unwritten pact of lifetime employment. But Du Pont's paternalism has also historically meant hierarchical control (which recent chief executive officers have decreased significantly).⁷

Public sector agencies typically use a one-size-fits-all design to focus on process. The emphasis is on the availability of procedures that can be activated, as necessary, to enforce rules and regulations. Traditionally, personnel staff placed strong emphasis on the control role and defined their job as upholding the rules. In view of the history of the civil service and its emphasis on preventing abuses, this is understandable.

For many years, outside observers have exhorted personnelists to de-emphasize the control function and to define their role more in terms of service, helping managers find ways to solve problems rather than simply enforcing the rules. Changing the orientation of personnel staff was a major theme for the drafters of the Civil Service Reform Act of 1978. Alan Campbell, who spearheaded the effort for the Civil Service Reform Act and became the first head of the Office of Personnel Management, told personnelists that they "must be a part of management, rather than either servants of management or policemen of the civil service system," and he excoriated them for "rigidity, inflexibility, and a turn of mind . . . that thinks in terms of protecting the system; can't do, rather than can do." The same message was echoed by scholars who called for personnelists to move "from compliance to consultation."⁸

Romzek and Dubnick⁹ contend that more flexibility in the federal personnel system is needed to relieve the poor fit between the highly bureaucratized merit system and the needs of federal agencies and employees. The structures and processes of the public service system emphasize negative controls and regulatory oversight as primary vehicles for accountability. For well over 25 years, research has documented the fact that personnel staff have traditionally felt torn between two roles – control and service.¹⁰ Until recently in the public sector, control appears to have won.

Tailored Flexibility

Under a tailored flexibility design, a common set of *core* human resource policies and practices are developed to achieve vertical integration based on the overall corporate purpose, mission and vision as well as to ensure horizontal integration across strategic subunits – as is the case for a one-size-fits-all design. At the same time, however, different parts of the organization tailor the design of *some* specific human resource policies and practices to accomplish strategies more appropriate to their effectiveness and success.

⁷ Robert Levering, *The 100 Best Companies to Work for in America* (New York, NY: Doubleday, 1993), p. 108.

⁸ Carolyn Ban, *How Do Public Managers Manage? Bureaucratic Constraints, Organizational Culture, and the Potential for Reform*, 1st ed. (San Francisco, CA: Jossey-Bass, 1995), pp. 90-91.

⁹ National Association of Public Administration, *Strategies and Alternatives for Transforming Human Resources Management* (Washington, DC: National Academy of Public Administration, August 1995), p. 49.

¹⁰ Ban, pp. 90-91.

Characteristics

Generally, a tailored flexibility design exhibits the following characteristics:

- The corporate level has a moderately high involvement with the strategic subunits.
- The corporate level establishes “core” horizontal human resource policies and practices.
- The corporate level establishes the human resource management aligning mechanism.¹¹
- The corporate level establishes guidelines among the subunits to ensure horizontal integration.¹²
- Subunits apply the aligning mechanism as appropriate.
- Subunits select a tailored set of human resource policies and practices to fit the needs of that subunit.

The tailored flexibility design provides a common set of core human resource policies and practices supporting a specific strategic direction and allows individual strategic subunits to tailor the design of some specific policies and practices to their own strategic needs. The core corporate policies and practices are based on the corporate requirement for horizontal integration of the different strategic subunits and the needs common across all strategic subunits. The common policies and practices often:

- Provide economies of scale.
- Are based on corporate needs for actions across subunits (for example, interdependent or joint operations, personnel transfers across subunits, the desire to reduce competition for resources, the need to work toward a common end).

For the uniformed services, this general system design suggests that, at one end of the spectrum, the Department of Defense would delineate a specific aligning mechanism (core competencies, . . . organizational strategies) but leave the application of the aligning mechanism to the services. For example, the department might specify organizational strategies as the appropriate aligning mechanism and leave the choice of the specific organizational strategies to the services (or to organizations below the service level). At the other end of the spectrum, the Department of Defense might not delineate an aligning mechanism and leave even that choice to the services. In this case, different services might choose to align their human resource management systems using different mechanisms.

The primary consideration in a general system design for tailored flexibility is what to constrain and what to delegate. At any point on the entire spectrum of tailored flexibility, the department would provide guidance necessary to ensure commonality where needed to promote those outcomes essential from the perspective of the uniformed services, as a whole (for example, military culture or jointness). A general

The primary consideration in a general system design for tailored flexibility is what to constrain and what to delegate.

¹¹ Porter (1985), pp. 394, 405-406.

¹² Porter (1985), pp. 318-319, 394.

. . . tailored flexibility represents an effort to combine the strategic direction of the department, as a whole, focusing on the fundamental reason for being and on the requirement to orchestrate the effective integration of its parts, with the strategic needs of the uniformed services or major commands, focusing on how to best carry out their specific mission.

system design of tailored flexibility represents an effort to combine the strategic direction of the department, as a whole, focusing on the fundamental reason for being and on the requirement to orchestrate the effective integration of its parts, with the strategic needs of the uniformed services or major commands, focusing on *how* to best carry out their specific mission.

Just as the current system possesses characteristics that suggest a general system design of one-size-fits-all, it also possesses characteristics of a general system design of tailored flexibility. The uniformed services currently “tailor” the human resource management system to their specific needs. For example, high year of tenure, promotion timing and opportunity, assignment lengths, career paths and age and experience mix of the work force all vary among the services. The needs are clearly *correlated* with *service* strategies. Although the policies and practices are strongly related to functional outcomes (quality levels of recruits, retention, etc.), it is difficult to identify how the policies and practices (and the changes to policies and practices) are linked to the service strategy itself and, more specifically, to the outcomes desired by that strategy. Tailored flexibility, in the sense discussed here, is not just about possessing authority to make changes to the human resource management system, but more importantly, about having the ability to tailor those changes to the specific organizational outcomes desired.

Examples

IBM Corporation (186,000 employees) is an example of an organization that has changed from a one-size-fits-all general system design to tailored flexibility. IBM today is in the midst of a remarkable transformation. The enterprise is splitting itself up into a federation of companies. It has reorganized itself into 14 different units – and each of those units may have a dozen different businesses. In 1992, to tie employees more closely to their business units, IBM introduced a variable pay program with bonuses of up to three percent of salary based on the performance of the unit to which an individual belongs. IBM is also trying to move to rapid response to customer needs.

When companies make these kinds of dramatic changes in direction, they sometimes assert, “Nothing is sacred,” meaning that anything can be dismantled. But IBM is a company with a strong sense of tradition, and it has been careful to tell its employees that the company is not about to abandon the qualities that have made it a place where people come to learn, advance their careers and contribute to society. IBM wants to continue to be “the employer of choice,” and the company appears to be willing to do whatever it has to do “to be the most attractive employer.”¹³ In IBM’s case, the move to a human resource management system based on the needs of the individual strategic business units has been constrained by tradition (culture).

PepsiCo’s human resource management system is designed so that there are some “corporate” standardized human resource management functions; some human resource management functions are standard within a strategic business unit (Pizza

¹³ Levering, p. 196.

Hut, Taco Bell, etc.); and some human resource management functions (like compensation) specifically tailored for each location or foreign site.¹⁴

Hughes Electronics (85,000 employees) used a one-size-fits-all system design in the past – but no more. Now the corporate human resource management department only retains ownership of the incentive programs and the benefits design. Hughes has a cafeteria-style benefits plan; the amount of choice and its total value to employees varies by business units. The ability to obtain favorable group rates (consistent with its overall focus on low cost) is a major argument for retaining control at the corporate level; but the business units argue that they should have the right to tailor the plan to their specific needs. Hughes balances base pay with some pay-at-risk. The business unit determines competitive pay strategy; this allows greater flexibility in managing costs, higher pay for superior performance, if desired, and dispels the perception that an entitlement exists.¹⁵

AT&T (300,000 employees) is a global provider of telecommunications products and services which has undergone a transformation from a protected utility to a highly competitive global force within its industry.¹⁶

Although AT&T has designed its human resource management system to provide common salary, benefits, a standard orientation package and recognition program, the company uses tailored performance management for the two large subgroups of employees and tailors training and development. The localized (tailored) performance management aspect of the human resource management system helps AT&T focus on maintaining high employee quality. This design helps the company and the employees maintain a sense of shared vision and values.¹⁷

Organizations can move toward tailored flexibility for other business reasons, as well. **Hewlett-Packard** has changed its human resource management design from an each-to-its-own to tailored flexibility because of the need to reduce administrative costs. Hewlett-Packard has defined the business of the human resource management function as facilitating, measuring and improving the quality of the management process – as a complement to the management process, not a substitute for it. It has established a number of human resource management initiatives that support the corporate strategic intent by increasing value, providing higher quality services and utilizing resources more efficiently.¹⁸

Currently, some human resource management functions such as benefits administration and relocation management are centrally controlled; some functions (for example, disability services) are controlled at the regional level; and many business-related human resource management functions such as hiring, performance management and training are “tailored” by smaller subunits.

¹⁴ The Hay Group, “Results of Research Concerning the Application of Three Human Resource Management Approaches,” briefing to the 8th QPMC, March 18, 1996 (The Hay Group, Arlington, VA), p. 6.

¹⁵ 8th Quadrennial Review of Military Compensation, “West Coast Trip – Strategy and Implementation,” 8th QPMC Working Paper, undated, pp. 25-27.

¹⁶ National Academy of Public Administration, *Innovative Approaches to Human Resources Management* (Washington, DC: National Academy of Public Administration, 1995), pp. 13-16.

¹⁷ The Hay Group, pp. 7-8.

¹⁸ National Academy of Public Administration (August 1995), p. 48.

Human resource management specialists in the smaller subunits report directly to line managers but have a “dotted-line” relationship with the corporate vice president for human resources. As a result, Hewlett-Packard is able to operate with a reduced number of “centralized” human resource specialists; the human resource management department is viewed as value-adding by the line because of its increased focus on business. Centralizing the purely administrative human resource management functions allows the human resource specialists in the subunits to spend more time on business-related issues (and suggests the possibility, at least, of outsourcing some or all of these functions). Line managers take responsibility for their own “people problems” instead of referring them to the human resource managers. Hewlett-Packard states that it has saved \$50 million per year in personnel costs by changing human resource management general system design; and that it went from a servicing ratio of 1:53 to 1:75.¹⁹

The **State of Florida** provided its managers more flexibility to modify human resource management policies and processes to facilitate desired program results. Pilot programs allowed state agencies to act outside of Florida’s normal personnel statutory requirements. This goes further than the Government Performance and Results Act, which only permits waivers of nonstatutory administrative provisions. Florida agencies have the authority to establish their own personnel classification and pay plans and transfer funds and budget authority internally without prior approval from the Executive Office of the Governor. Agencies are using flexibilities to change dispute resolution processes; to adopt family-friendly policies such as flexible hours, days and work sites; to provide raises not tied to promotion; and to use broad-banding classification systems. Significantly, agencies are encouraged to experiment in the name of achieving results. No “one-size-fits-all” approach is presumed, and consistency is not valued above service to the public.²⁰

The **federal government** is also aligning human resource management systems, but slowly. Despite the Government Performance and Results Act, which requires federal agencies to describe how they will use human resources to meet goals established in their five-year strategic plans, there is limited evidence that agencies are effectively linking the human component to organizational strategy. Agencies can use Government Performance and Results Act strategic plans and demonstrations and National Performance Review performance agreements as vehicles to link tailored approaches to human resource management systems with improved mission results. Agencies can also develop tailored approaches to human resource management systems to better support agency program goals within the context of basic principles such as equal employment opportunity, merit hiring and promotion, and health and safety programs.²¹

¹⁹ The Hay Group, pp. 10-12.

²⁰ National Academy of Public Administration (August 1995), pp. 6-7.

²¹ National Academy of Public Administration, *Alternatives for Federal Agencies: Summary Report* (Washington, DC: National Academy of Public Administration, September 1995), p. 5.

Although personnelists, like managers, are hampered by having to operate within the constraints of rigid civil service procedures, strong support from top management has enabled many of them to give managers considerable assistance in finding whatever flexibility the system possesses. Deregulation of the system would not only give managers more discretion, it would also lift burdensome requirements from personnel staff and enable them to provide better service to line managers. Defining their customers as line managers and focusing on the provision of better service are vital first steps. But what is missing, even in some of the more service-oriented personnel offices, is a focus on strategic human resource management. This focus that aligns the human resource management function with the core mission. . . . While the private sector has been moving in this direction for some time . . . , the concept is still quite new for public sector organizations.²²

Each-to-its-own

Under an each-to-its-own design, parts of the organization (for example, strategic subunits) have extensive latitude in the design of the human resource management system based on their particular environment and strategy.

Characteristics

An each-to-its-own design exhibits the following characteristics:

- The corporate level is involved with subunits but does not determine their human resource management strategy or policies and practices.
- The corporate level accommodates subunit decisions.
- Subunits select their own strategy.
- Subunits develop human resource policies and practices.

For the uniformed services, this suggests that each service (or major command) would be free to design a human resource management system to meet its particular needs. Although such an approach (which, as noted above, has a precedent of sorts) potentially would improve the service's ability to meet its specific needs, it would not likely provide the integrative capacity needed to ensure overall Department of Defense desired outcomes.

Examples

GTE is one example of an each-to-its-own general system design. The corporation has moved from a tailored flexibility design to each-to-its-own primarily due to its rapid acquisition of several companies, especially international companies. The corporate level employs a senior vice president for human resources, and each strategic business unit employs a human resources executive. Although general human

Under an each-to-its-own design, parts of the organization (for example, strategic subunits) have extensive latitude in the design of the human resource management system based on their particular environment and strategy.

²² Ban, pp. 119-120.

resource policies and practices guide each strategic business unit, each is empowered to handle implementation of its own system. The company finds localized control of human resources to be more efficient.

The corporate human resource management operation reports to one of two vice chairmen. The human resource management function is headed by a senior vice president, as are finance, external affairs and general counsel. There are human resource management executives at the strategic business unit level. The strategic business unit human resource management staffs report to strategic business unit line management. The strategic business units have a considerable degree of autonomy over human resource management matters. Corporate policies are quite broad and are not aggressively enforced if strategic business unit management perceives a need to deviate from policy in pursuit of a business goal.²³

A general system design of each-to-its-own is often found in a large holding company or agency with little need to engage in either the operation of its strategic business units or the human resource management systems used therein.

Given a framework and set of dimensions, what else is necessary in order to design a human resource management system? The next chapter describes a process for developing an integrated human resource management system. This process operates at the level of the dimensions.

²³ National Academy of Public Administration (1995), pp. 53-55.

CHAPTER 4

DESIGNING SYSTEMS

This chapter and the next two chapters develop the process, recommended by the 8th Quadrennial Review of Military Compensation, for designing human resource management systems that are aligned with the strategic ends of the organization. This chapter focuses on the definition of important concepts and presents a framework for thinking about human resource management systems. The next two chapters expound upon the steps in the process and describe the model developed to facilitate that process.

Elements and Dimensions of the Human Resource Management System

*Elements*¹ are the fundamental building blocks of the human resource management system. The elements are usually distinct functions within human resource management (and often other) departments. Policies and practices arise from within each of these elements. The view, in this report, of the elements, together with the relationships among them, is based largely on the work of Von Glinow *et al.*,² summarized in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective*, Chapter 3. These elements and their relationships define the scope of an integrated human resource management system and provide the framework for developing alternative human resource management systems for the uniformed services.

Dimensions are a set of continua that characterize the principal features of the human resource management system. The process recommended in this report describes how an organization can make and use *strategic choices* along these dimensions to develop policies and practices that engender and support the behaviors needed to achieve its strategic ends.

Human Resource Management Framework

The framework portrayed in Figure 8 demonstrates both the scope of the human resource management system and the complexity of interrelationships among its elements. The scope is defined by the inclusion of all the elements (even those often found outside the human resource management function) relating to organizational design, compensation and personnel management, as well as of the strategic intent

¹ The term “elements” is arbitrary; other terms used for the same purpose include “aspects,” “subfunctions” of the human resource management function, “domains” and “categories.” In this report, elements are grouped into three broad categories of human resource management functions: organizational design, compensation and personnel management.

² Von Glinow *et al.*, pp. 23-31.

of the organization and the desired outcomes, as indicated by organizational performance. The complexity is represented by the connecting arrows that portray critical interrelationships between elements necessary in an integrated system. Such complexity is difficult to depict in more linear representations such as the “personnel life cycle” commonly used by the uniformed services.

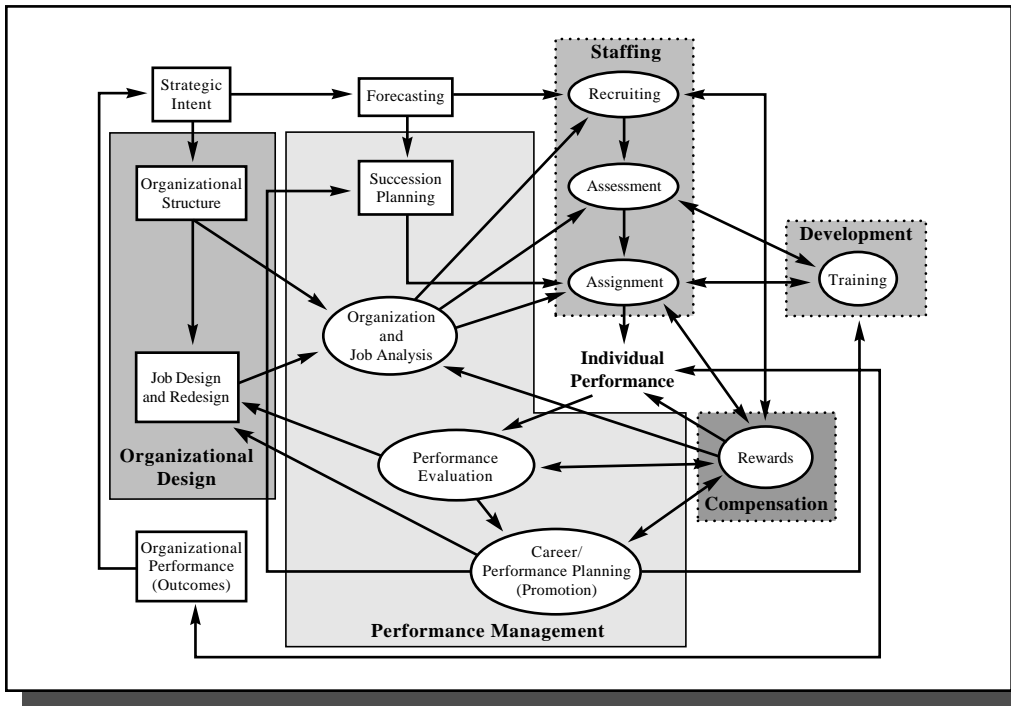


Figure 8 – Traditional Function-oriented Integrated Framework

The elements in ovals in Figure 8 are more traditionally associated with the human resource management function, in general, and – with the exception of rewards – with the personnel management component, in particular; those elements in rectangles (for example, strategic intent and job design) are typically viewed as being outside the human resource management function.

Tracing through the framework, *strategic intent*³ represents the broad, long-term direction and objectives for the organization and serves as the focus – in an integrated human resource management system – for aligning the organization’s human resource management policies and practices.⁴ Information gleaned from the strategic intent informs and directs efforts to define the organization’s tasks and requirements, as well as guiding top management in selecting the most appropriate organizational and job design. This is one of the major elements (together with a focus on organizational performance) missing from the human resource management system of the uniformed services.

. . . *strategic intent* . . . is one of the major elements (together with a focus on organizational performance) missing from the human resource management system of the uniformed services.

³ The original framework provided by Von Glinow *et al.* labels this element “strategic plan.” The change to the label “strategic intent” dispels the implied requirement for a formal written strategic plan.

⁴ Organizational strategies – or other mechanisms for aligning the human resource management system with the strategic intent of the organization – enter the framework in this element.

The choices an organization makes along each dimension are strategic because they affect the fundamental design . . . of human resource management policies and practices.

Forecasting determines the organization's personnel requirements (in terms of numbers, skills, traits, behaviors, etc.), thus guiding the organization's recruiting efforts and succession planning strategies. *Recruitment* involves attracting, screening and acquiring new individuals for the organization; and *succession planning* involves identifying and grooming individuals throughout their careers for future high-level positions within the organization.

Once an individual is recruited into the organization, the process of *assessment* begins to test and evaluate his or her talents and abilities. The individual's abilities are evaluated in terms of the needs of the organization, and if the individual is qualified for a particular job, the *assignment* process ensues. Following an initial assessment, the individual may receive *training* to develop, upgrade or learn new skills (including orientation and socialization); then he or she is either reassessed prior to assignment or assigned directly to a particular job. Thus, assessment is linked to recruiting, and assignment is linked to assessment. Assignment is further linked to succession planning and organization and job analysis, while training, assignment and assessment provide essential information to each other.

Organization and job analysis identifies positions required in the organization, the descriptions of those positions and the qualifications required of individuals filling those positions. Individuals receive *rewards* based on *performance evaluations*; and information from performance evaluation is used in career and performance planning – promotions, future positions, separation – as well as in determining the need for *job design and redesign* – for example, job rotation, job enlargement, job enrichment and group options. Rewards motivate and, hence, affect individual performance and influence career decisions such as which assignments and training to seek and career/performance planning. *Career and performance planning* links to job design and redesign, succession planning and training, while job design and redesign and rewards both feed into organization and job analysis.

Finally, this framework links individual performance (individual productivity, for example) to *organizational performance* (aggregate productivity, for example). The evaluation of organizational performance is compared to that required by the organization's strategic intent.

Dimensions

Dimensions are continua that characterize the principal features of the policies and practices of the human resource management system. The choices an organization makes along each dimension are strategic because they affect the fundamental design (as opposed to merely the application) of human resource management policies and practices. This report describes a structured process, relying heavily on strategic choices, for aligning human resource management policies and practices with the strategic intent of the organization – and with each other. This process takes into account the relationships among the elements of the human resource management system. In other words, strategic choices guide the development of policies and practices that are both vertically and horizontally aligned. The result is a set of

policies and practices that, together, make up an integrated human resource management system.

A dimension is a continuum of characteristics that vary between two contrasting poles. For example, consider the dimension “internal vs. external labor supply.” An organization may choose to fill all positions from within the organization (internal supply) or, conversely, to fill positions entirely from outside the organization (external supply). Or, it may choose to fill positions from both sources – an intermediate point along the continuum. This choice has fundamental implications for the design of policies and practices. For example, it influences the market segments from which candidates will be drawn, the form and scope of advertisements for positions, the role of the human resource management department vis-à-vis external agencies, etc. It also affects how the organization interacts with the labor market (in fact, what the definition of the “labor market” is) through the elements of attracting and assigning. Additionally, it has fundamental implications for other elements of the human resource management system such as rewards and succession planning. The choice is, therefore, strategic in the sense of its impact on the design of policies and practices within the specific element it affects, as well as of its impact on other elements of the human resource management system.

Research on Dimensions

The concept of “dimensions” is found throughout human resource management literature. Although authors differ somewhat on the label applied to the concept, on the recommended set of dimensions, and on the categories into which the dimensions are grouped, they generally agree dimensions are useful, indeed necessary, in formulating a consistent set of human resource management policies and practices to support the organization’s strategy. The following sources were used to develop a comprehensive set of 44 dimensions appropriate to designing human resource management systems for the uniformed services. Note that the groupings are largely consistent and relate closely to the human resource management framework portrayed in Figure 8 above.

Fisher, Schoenfeldt and Shaw ⁵ list 37 “human resource practice choices” grouped into six categories: staffing, appraising, compensating, training and development, employee influence, and work systems.

Schuler and Jackson ⁶ present a similar set of 30 choices grouped into five “human resource management planning menus:” planning, staffing, appraising, compensating, and training and development.

Hax and Majluf ⁷ identify 17 strategic choices grouped into what they describe as the five major categories of human resource management strategic decision making:

. . . dimensions are useful, indeed necessary, in formulating a consistent set of human resource management policies and practices to support the organization's strategy.

⁵ Cynthia D. Fisher, Lyle F. Schoenfeldt and James B. Shaw, *Human Resource Management*, 3rd ed. (Boston, MA: Houghton Mifflin Company, 1996), pp. 58-64.

⁶ Randall S. Schuler and Susan E. Jackson, “Linking Competitive Strategies with Human Resource Management Practices,” *The Academy of Management Executive*, Vol. 1, No. 3 (August 1987), pp. 207-219.

⁷ Arnoldo Hax and Nicolas S. Majluf, *The Strategy Concept and Process: A Pragmatic Approach*, 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 1996), pp. 347-358.

. . . strategic choices . . . must be consistent with one another; otherwise, the resulting human resource management policies and practices “lack coherence and may fail to operate as intended.”

selection, promotion and placement, appraisal, rewards, management development, and labor/employee relations and voice.⁸ The authors state that the alternatives available for each choice define the character and quality of the human resource management environment. The authors also point out that the strategic choices in each of the five decision categories must be consistent with one another; otherwise, the resulting human resource management policies and practices “lack coherence and may fail to operate as intended.”

Bernardin and Russell⁹ postulate six domains of human resource management activities: organizational design, staffing, employee and organizational development, performance management, reward systems, benefits and compliance, and communications and public relations.

Gomez-Mejia and Balkin¹⁰ discuss the concept of dimensions as it relates to strategic compensation. They identified 17 dimensions they deemed were the most salient criteria to distribute rewards, broken down into three broad categories: basis for pay, design of the pay system and administrative framework.

In addition, Holtzclaw, Johnson, Ohnesorg, and Showell¹¹ identified over 60 dimensions in a thorough review of the literature on human resource management. They classified the dimensions into categories of compensation, performance management, recruiting and selection, human resource development and training, and organizational behavior and culture.

Resulting Set of Dimensions

The 44 dimensions derived from the preceding sources are sufficient to describe alternative human resource management systems for the uniformed services. The dimensions are grouped into six categories reflecting the common themes underlying each set of choices: organizational culture and climate; rewards (compensation and benefits); structure and design; staffing (recruiting, assessing and promoting); performance management; and training and development. The last five of the six categories directly relate to those in the human resource management framework portrayed in Figure 8. The sixth category, organizational culture and climate, concerns the overall atmosphere and environment within the organization and, though important, does not correspond directly to any of the human resource management system elements. Table 4 lists the dimensions by category (combining organizational culture and climate with structure and design), along with a brief description of each.

⁸ “Voice” in this context is the degree to which organizational policy permits employees to influence matters such as organizational goals, pay, working conditions, career progression, employee security, etc. (Hax and Majluf, p. 349.)

⁹ Bernardin and Russell, pp. 36-43.

¹⁰ Luis R. Gomez-Mejia and David B. Balkin, *Compensation, Organizational Strategy, and Firm Performance* (Cincinnati, OH: South-Western Publishing Co., 1992), pp. 34-58. See also 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective*, Chapter 3 for more detail on these strategic patterns of compensation.

¹¹ Tanya Holtzclaw, Julie Johnson, Sandra Ohnesorg and Stefanie Showell, *Human Resources Study for the 8th QRM C*, Department of Defense, American University MBA research paper commissioned by the 8th QRM C (Washington, DC, April 25, 1996).

Table 4 – Dimensions of Human Resource Management Systems

CULTURE AND ORGANIZATIONAL DESIGN			
<i>Risk Averse</i>	⇔	<i>Risk-taking</i>	<i>The organization avoids mistakes through extensive procedures and prescribed routines (risk averse) versus the organization is willing to accept mistakes and risk in striving for superior performance (risk-taking).</i>
<i>Results</i>	⇔	<i>Process</i>	<i>In attaining organizational goals, the organization places importance on obtaining results versus the organization places importance on the process and behaviors by which the results are obtained.</i>
<i>Individualism</i>	⇔	<i>Collaboration</i>	<i>On the job, employees accomplish their work by working strictly as individuals versus employees accomplish their work by collaborating extensively.</i>
<i>Transactional Leadership</i>	⇔	<i>Transformational Leadership</i>	<i>The organization's senior leadership focuses primarily on setting internal measurements such as standards and goals (transactional) versus senior leadership focuses primarily on large-scale issues such as identifying environmental threats and opportunities and reshaping core aspects of the organization (transformational).</i>
<i>Fixed Policies</i>	⇔	<i>Flexible Policies</i>	<i>The organization's policies are fixed and standardized, applying to all employees versus managers have considerable discretion in modifying and tailoring policies to fit both mission and employee needs.</i>
<i>Short Term</i>	⇔	<i>Long Term</i>	<i>The energies of the organization are directed at actions promising quick payoff versus the organization focuses on selecting and achieving near-term actions because they contribute to the accomplishment of a desired long-term goal.</i>
<i>Autocratic</i>	⇔	<i>Participative</i>	<i>Management and decision-making processes within the organization are directive and rule-based versus management and decision-making processes are open and participative.</i>
<i>Closed Communications</i>	⇔	<i>Open Communications</i>	<i>Information about the terms of individual employment contracts is held confidential versus information about the terms of individual employment contracts is disclosed and widely shared.</i>
<i>Reactive</i>	⇔	<i>Proactive</i>	<i>The organization focuses on addressing problems as they arise versus the organization addresses potential issues in light of how they contribute to achieving future goals and outcomes.</i>
<i>Low Decision Autonomy</i>	⇔	<i>High Decision Autonomy</i>	<i>The organization prescribes absolute rules that apply to the entire organization versus the organization sets forth broad guidance that can be modified and tailored by management to fit their circumstances, employees and mission needs.</i>
<i>Low People Orientation</i>	⇔	<i>High People Orientation</i>	<i>Management focuses exclusively on mission requirements in making decisions versus management actively considers the impact its decisions will have on the employee workforce.</i>
<i>Low Concern for Quality of Work Life</i>	⇔	<i>High Concern for Quality of Work Life</i>	<i>Management focuses entirely on ensuring work completion regardless of working conditions versus management believes a high quality of work life, as indicated by programs such as flexible schedules, job sharing, telecommuting, etc., contributes to increased productivity.</i>
<i>Steep Structure</i>	⇔	<i>Flat Structure</i>	<i>The organizational hierarchy has many levels of control and supervision versus the organizational hierarchy has few levels of control and supervision.</i>
<i>Simple Job Design</i>	⇔	<i>Holistic Job Design</i>	<i>Jobs are designed around simple, discrete tasks requiring specific skills versus jobs are designed around multiple, complex tasks that require a variety of skills, a wider range of abilities and more in-depth knowledge.</i>
<i>Centralized</i>	⇔	<i>Decentralized</i>	<i>Decision-making authority for the organization is confined to headquarters versus decision-making authority is delegated to subunits within the organization.</i>
<i>Individual</i>	⇔	<i>Team</i>	<i>The work of the organization is generally structured to be performed by individuals working alone versus the work of the organization is generally structured to be performed by teams.</i>

Table 4 – Dimensions of Human Resource Management Systems (continued)

STAFFING			
<i>Internal Labor Supply</i>	⇔	<i>External Labor Supply</i>	<i>To fill non-entry-level vacancies, the organization focuses its search internally versus the organization considers individuals from external sources.</i>
<i>Narrow Career Paths</i>	⇔	<i>Broad Career Paths</i>	<i>Progression within the organization follows a prescribed series of sequential steps versus progression within the organization is achievable from pursuing any of multiple, broad career paths.</i>
<i>Vertical Development</i>	⇔	<i>Horizontal Development</i>	<i>Individuals develop within the organization through promotions in the hierarchy versus individuals contribute to the organization by learning new skills and gaining a broader base of experience.</i>
<i>Screen by Attrition</i>	⇔	<i>Extensive Initial Screening</i>	<i>The organization devotes relatively few resources to the recruiting program, relying instead on attrition to produce the desired characteristics in employees versus the organization devotes substantial resources to ensure it identifies and selects the proper employees.</i>
<i>Job Fit</i>	⇔	<i>Organizational Fit</i>	<i>The organization selects and hires specific employees based upon the skills they possess needed for a specific job versus the organization selects and hires specific employees based upon their ability to operate effectively within the organization's established culture.</i>
PERFORMANCE MANAGEMENT			
<i>Objective</i>	⇔	<i>Subjective</i>	<i>Appraisals are objective, quantitative or outcome-oriented assessments versus appraisals are subjective and qualitative assessments.</i>
<i>Evaluative</i>	⇔	<i>Developmental</i>	<i>Appraisals are judgmental, measurement-related and results-oriented feedback versus appraisals provide mentoring, coaching and constructive feedback to help the employee develop.</i>
<i>Single-source Appraisal</i>	⇔	<i>Multi-source Appraisal</i>	<i>Appraisals are based upon input from a single source such as a supervisor versus appraisals are based upon input from multiple sources such as peers, supervisors, subordinates, competency reviews and performance measures.</i>
<i>Individual Appraisals</i>	⇔	<i>Group/Team Appraisals</i>	<i>Performance is primarily determined and measured at the individual level versus performance is usually based upon group or team performance.</i>
<i>Process/Behavior Oriented</i>	⇔	<i>Results Oriented</i>	<i>Performance is evaluated on the techniques, processes and behaviors used to achieve desired outcomes versus performance is evaluated on whether the desired results were achieved.</i>
<i>Time Series Comparison</i>	⇔	<i>Cross-section Comparison</i>	<i>Performance is evaluated based upon changes over a period of time (time series) versus performance is evaluated based upon a comparison to other employees at a single point in time (cross-section).</i>

(continued)

Table 4 – Dimensions of Human Resource Management Systems (continued)

REWARDS			
<i>Job</i>	↔	<i>Skill</i>	<i>Individuals are paid based upon the job they currently perform versus individuals are paid based upon the skills they possess regardless of whether they use those skills in their present job.</i>
<i>Egalitarian</i>	↔	<i>Hierarchical</i>	<i>Practices, policies and benefits apply equally to a wide cross-section of employees (egalitarian) versus practices, policies and benefits apply differently to employees as the employee progresses through the organizational hierarchy.</i>
<i>Internal Equity</i>	↔	<i>External Equity</i>	<i>The organization emphasizes consistency and fairness in the pay structure within the organization versus the organization attempts to ensure employees are paid consistently compared to the market value for their skills and services.</i>
<i>Longevity</i>	↔	<i>Performance</i>	<i>The organization rewards employees for remaining with the organization versus the organization rewards those employees who contribute through their superior performance to the success of the organization.</i>
<i>Fixed Pay</i>	↔	<i>Variable Pay</i>	<i>The organization pays employees a substantial amount of their pay at a fixed, stable rate versus the organization pays employees a substantial amount of their pay according to a formula that relates the amount of pay received to an output or outcome measure.</i>
<i>Individual Pay</i>	↔	<i>Group Pay</i>	<i>The employee receives pay, related to performance, based upon individual contribution versus the employee receives pay, related to performance, based upon group contribution.</i>
<i>Low Investment in Benefits</i>	↔	<i>High Investment in Benefits</i>	<i>The organization provides or offers few benefits to the employee versus the organization provides or offers an extensive, comprehensive benefits package to the employee.</i>
<i>Fixed Benefits</i>	↔	<i>Flexible Benefits</i>	<i>The organization offers a standard package of benefits to the employee versus the employee has the option to tailor the selection of benefits desired to meet the employee's needs.</i>
<i>Monetary Rewards</i>	↔	<i>Nonmonetary Rewards</i>	<i>Rewards for superior performance are typically cash or benefit-related versus rewards for superior performance are typically nonmonetary rewards such as recognition.</i>
<i>On-the-Spot Rewards</i>	↔	<i>Scheduled Rewards</i>	<i>The organization rewards employees on a spontaneous basis versus employees are rewarded only at specified intervals.</i>
<i>Frequent Rewards</i>	↔	<i>Infrequent Rewards</i>	<i>The organization rewards employees on a frequent, continuous basis versus the organization rewards employees infrequently.</i>
TRAINING AND DEVELOPMENT			
<i>Job Skills</i>	↔	<i>Career Development</i>	<i>The organization provides training for skills needed for a specific job versus the organization provides broad training for career development and progression.</i>
<i>Limited Training</i>	↔	<i>Extensive Training</i>	<i>The organization provides minimal training and development versus the organization provides extensive, comprehensive training to employees.</i>
<i>Formal Training</i>	↔	<i>Informal Training</i>	<i>The organization provides formal, structured training sessions for employees versus the organization provides informal training.</i>
<i>Training Conducted Internally</i>	↔	<i>Training Conducted Externally</i>	<i>The organization uses its own employees to conduct training versus the organization employs external programs and facilities to conduct employee training.</i>
<i>Periodic Training</i>	↔	<i>Just-In-Time Training</i>	<i>Training is provided on a regular basis to any employees who need training in a particular area versus training sessions are scheduled based upon specific needs when the needs arise.</i>
<i>Individual Training</i>	↔	<i>Group Training</i>	<i>Training programs are designed to be taught at the individual level versus training programs are designed to be taught to employees in group settings.</i>

CHAPTER 5

A PROCESS FOR ALIGNING POLICIES AND PRACTICES

. . . to achieve strategic ends, an organization's policies and practices must be a "total system," aligned with desired outcomes.

As Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective, Chapter 3 noted, to achieve strategic ends, an organization's policies and practices must be a "total system," aligned with desired outcomes. These policies and practices are interdependent and can work synergistically to achieve organizational outcomes. In contrast, an organization with a human resource management system that is merely a collection of discrete policies and practices with little or no attempt to capture the synergies will fail to deliver the higher organizational performance.

Designing a human resource management system is a complex undertaking. This chapter describes an overall process for accomplishing this task and focuses, more specifically, on the part of that process that depicts how an organization can translate its strategic intent into desired role behaviors and, given those role behaviors, make strategic choices along the "dimensions" that characterize the human resource management system. For illustration, the process is applied to the organizational strategies of "innovation" and "least cost." Appendix III summarizes related processes (from the literature) from which the process described in this report evolved.

For illustrative purposes, the process described below is used to design *generic* human resource management systems to support each of the "pure" organizational strategies delineated in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective*, Chapter 3 (and described in greater detail in this chapter) – and to investigate variations to these generic human resource management systems based on specific organizational requirements. Although one of the generic human resource management systems might provide a better "fit" with an organization's strategic intent than the current system, a *customized* human resource management system can further improve that fit. Designing a customized system for a particular organization requires extensive information about that organization, its environment and its managerial style and culture ¹ – in order to refine the specific behaviors desired. Consequently, the process is not employed to such an end here. However, with the requisite information, the same process is applicable without substantive change. To describe such systems is the *raison d'être* for the process proposed in this report.

¹ Hax and Majluf, p. 348.

In addition, the process is equally applicable at the corporate level of the uniformed services and at the strategic subunit level.² This report focuses on application of the process at the strategic subunit level.

Because the process is oriented specifically toward the design of human resource management systems, it does not explicitly take into account other systems (for example, those relating to information, finance, logistics, etc.). As noted in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective*, Chapter 5, changing the design of the human resource management system will also require changes in some or all of these other systems. For example, changing the appraisal system, an element clearly residing in the human resource management system, may require a significant change in the organization's information system to ensure effective implementation. The description below avoids discussing these necessary relationships in order to focus on the process for designing human resource management systems; however, this should not be taken to imply a lack of importance.

The Design Process

The design process developed and recommended in this report applies in the context of the purpose, mission and vision of the organization within which the human resource management system is to operate.³

Table 5 provides a detailed outline of that process. The first two steps in the process described in Table 5 are important to the successful completion of the process, but lie largely outside the scope of this report; the remainder of this chapter describes, in detail, step III – transforming the organization's strategy into human resource management strategic choices. For expository purposes, organizational strategies are used as the vehicle to carry information from step II to step III.

² In this report, the process described begins with the selection of an organizational strategy. As discussed in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective* (Washington, DC: 8th QRMC, June 30, 1997), Chapter 3, other mechanisms can be used to start this process (to align the elements of the human resource management system). Organizational strategies, as a means of aligning the elements of a human resource management system, have the most meaning at the level of a strategic subunit. At the corporate level, the process might better start with consideration of core competencies or core processes – for example, as a mechanism for aligning the strategic subunits to the overall corporate strategy. Regardless of the mechanism selected, the process moves next to the behaviors desired.

³ This process is also related to the vision of human resource management, presented in Chapter 2, in the sense that the vision defines the role of the human resource leader. For example, if the role of the human resource manager is less of a strategic partner who, with leaders and commanders, focuses on organizational outcomes, the process would not need to take these considerations into account. The vision of human resource management requires the organization to identify the broad values and beliefs that it holds about people, about managing and organizing people, and about how those values and beliefs relate to people inside and outside the organization; it, thus, provides the context for defining the role of the human resource leader.

Table 5 – A Process for Designing Human Resource Management Systems

Step I	Determine the organization's purpose, mission and vision	This step answers the questions of why an organization exists (purpose), what it is established to do (mission), and what it wants to be (vision).
Step II	Determine the organization's strategy based on its mission, vision, resources and environment	This step explains how the organization plans to accomplish its mission in order to achieve its vision in light of the pertinent environmental factors present and resources available. These considerations might include organizational capabilities, core competencies, culture (current and desired), demographics (external and internal), legal and/or regulatory considerations, size and geographic dispersion, and constraints (such as budgetary, legal, etc.).
Step III	Transform the organization's strategy into human resource management strategic choices	This part of the design process consists of two activities: defining organizational "role behaviors" and outcomes necessary to support the organization's strategy and converting these behaviors and outcomes into specific strategic choices along the "dimensions" that characterize the human resource management system. The strategic choices are the fundamental decisions that transform the organizational strategy into a description of the human resource management system. The strategic choices horizontally align the policies and practices within the various human resource management elements (such as performance evaluation, assessment and career planning) and, at the same time, vertically align human resource management policies and practices to the organization's intent. ⁴ By addressing these choices, organizations determine the human resource management policies and practices to meet their strategic goals. ⁵
Step IV	Evaluate the effects of the strategic choices on the desired performance outcomes	The human resource management strategic choice model was developed to provide a systematic, replicable means of conducting this evaluation. It is used to "test" the effects of the initial strategic choices and to refine those choices to better obtain the desired performance outcomes.
Step V	Translate the strategic choices into specific human resource management policies	This step describes the policies and practices that allow the system to be implemented and operated day-to-day. The policies and practices are the general descriptions of the specific programs that implement the organization's strategic intent.

Figure 9 illustrates the relationship among the activities in step III of the process. The left side of the diagram lists the organizational strategies considered in this report – military effectiveness, innovation, quality improvement, customer service and least cost. The next column contains the desired role behaviors and outcomes supporting each strategy. The grid contains the "strategic choices" along the dimensions of the human resource management system shown across the top of the diagram. The five organizational strategies are used as a vehicle for developing and describing the process. In practice, an organization will have its own unique strategy (perhaps some combination of the five proposed.) The process is applicable to any strategy. For example, for an organizational strategy of innovation, an initial set of choices might include emphasis on **Variable** (vs. **Fixed**) pay, **Group** (vs. **Individual**) incentives, and pay increases

⁴ Patrick M. Wright and Gary C. McMahan, "Theoretical Perspectives for Strategic Human Resource Management," *Journal of Management*, Vol. 18, No. 2 (June 1992), p. 240.

⁵ Bernardin and Russell, p. 39.

based on **Performance** (vs. **Longevity**); for an organizational strategy of least cost, the emphasis might be placed on **Fixed** pay, **Individual** incentives and pay increases based on **Performance**.

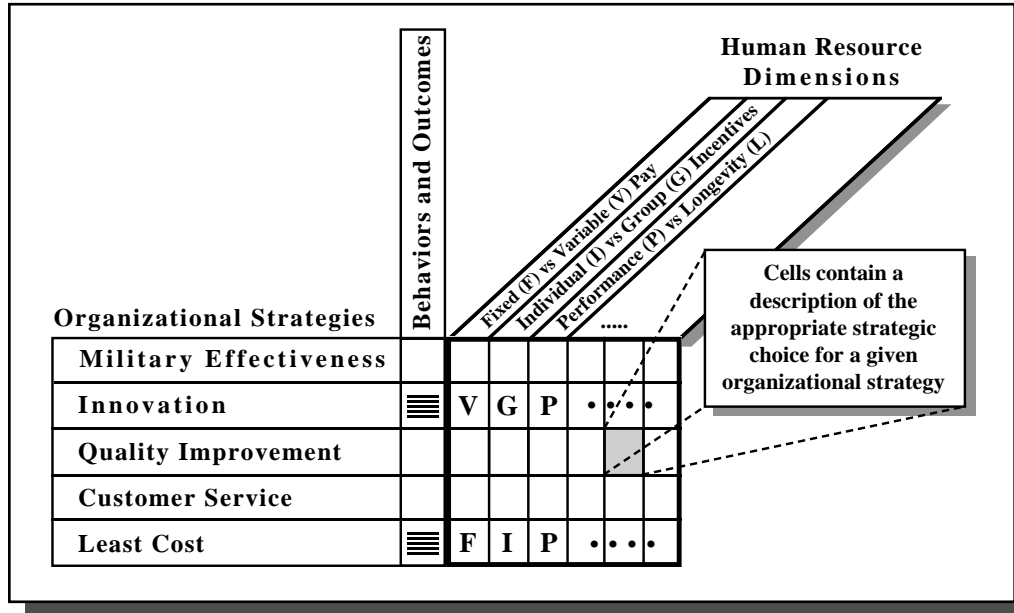


Figure 9 – Relationship of Behaviors, Dimensions, and Strategic Choices

In the context of Figure 9, the result of employing step III is a complete set of initial strategic choices along each of the dimensions for the row corresponding to the selected organizational strategy.

These initial strategic choices are then evaluated, in step IV of the process, using the human resource management strategic choice model to ensure they provide the desired outcomes. They are modified as necessary. Chapter 6 describes the model and its applications.

Satisfaction with the refined set of strategic choices leads, in Step V, to the descriptions of the policies and practices, depicted in Figure 10. Behind the matrix of strategic choices lie various grids whose cells contain descriptions of the policies and practices that result from designing a system consistent with the strategic choices selected. The policies and practices are delineated on the grids labeled: “compensation,” “personnel management,” “development,” etc.; however, in practice, a grid for each *element* of the human resource management system is required. Chapter 7 describes the policies and practices following from the “pure” organizational strategies.

... the design process relates organizational strategies to the desired role behaviors which, in turn, are used to make strategic choices along the set of "dimensions" that characterize the major features of human resource management systems which, in turn, are used to develop specific policies and practices within each element of the human resource management system.

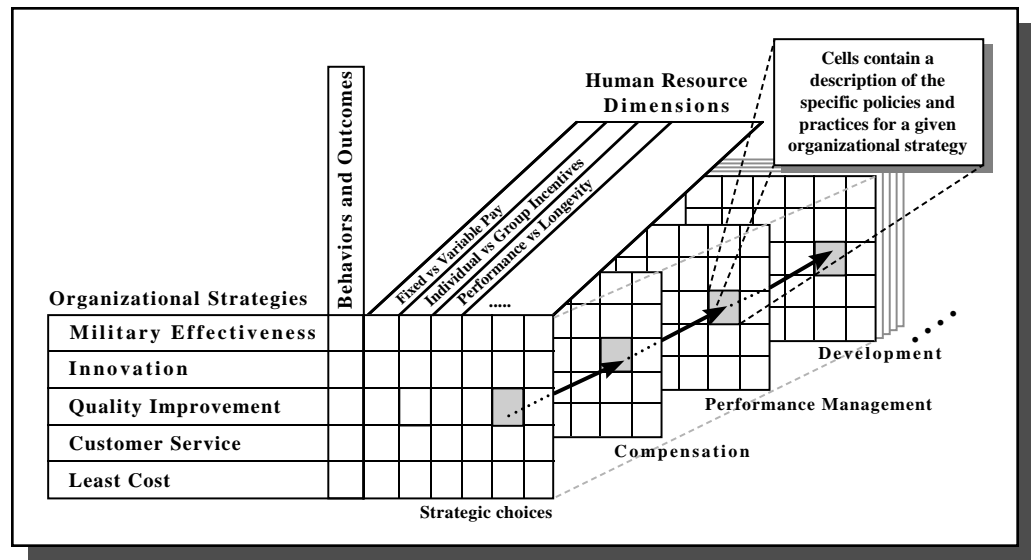


Figure 10 – Relationship of Strategic Choices and Practices

In summary, the design process relates organizational strategies ⁶ to the desired role behaviors which, in turn, are used to make strategic choices along the set of "dimensions" that characterize the major features of human resource management systems which, in turn, are used to develop specific policies and practices within each element of the human resource management system. Figure 11 summarizes the process.

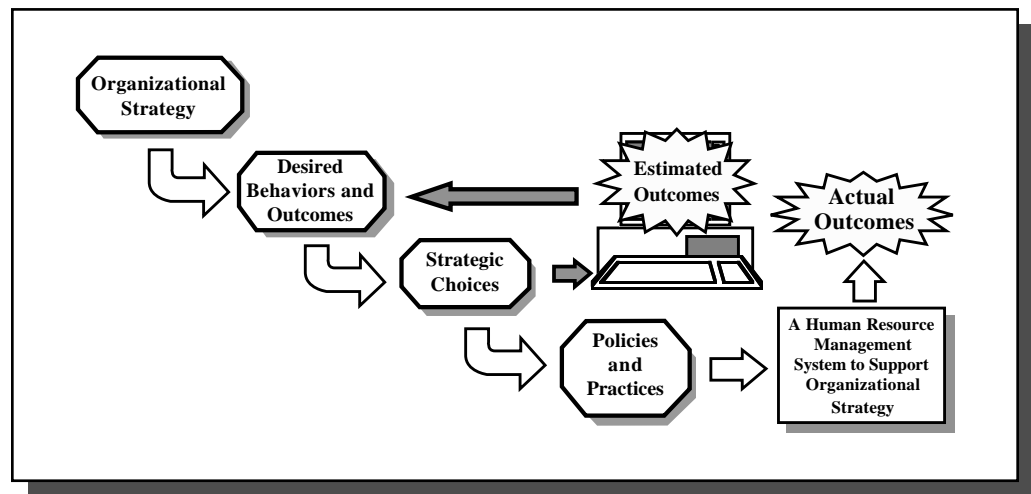


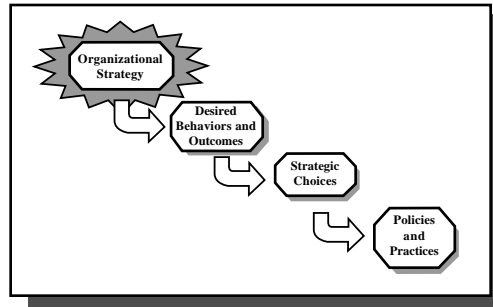
Figure 11 – A Process for Designing Human Resource Management Systems

⁶ Or core processes, core competencies, work cultures, etc.

Organizational Strategies for the Uniformed Services

Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective, Chapter 3 introduced the concept of *organizational strategies*; this section continues that discussion. Organizational strategies are one of several mechanisms the human resource management function can use to align the elements of the human resource management system to the organization’s strategic intent. This section describes five “pure” organizational strategies as they might apply to subunits of the uniformed services:

- Innovation.
- Quality improvement.
- Customer service.
- Least cost.
- Military effectiveness.



Four of the five organizational strategies are common *business* strategies and used by other organizations to align the elements of human resource management systems. A fifth organizational strategy – unique to the uniformed services – is proposed as a means of aligning the elements of a human resource management system for *operational* or *warfighting* organizations.

Subsequent sections will demonstrate that significantly different human resource management systems result from these different organizational strategies.

Innovation

An organizational strategy of innovation focuses on *uniqueness* as the means of differentiating the product or service provided. For example, Minnesota Mining and Manufacturing Company’s (3M) core strength is innovative new products for which it can charge premium prices.⁷ Organizations may focus on innovation by continually varying products or services to meet the needs of new categories of customers (or new needs of existing customers); by identifying innovative applications of existing products or services; or by being on the cutting edge of technology, bringing new products or services to market faster than competitors.⁸

For the uniformed services, the organizational strategy of innovation can be formulated as *continual leadership in the development of new and improved doctrine, processes and products to support warfighting needs*.

. . . significantly different human resource management systems result from . . . different organizational strategies.

⁷ Marilyn Multch, “3M, Master of Invention, Seeks to Reinvent Itself,” *Investor’s Business Daily*, December 28, 1995.

⁸ It may be possible to extend the idea of “organizational strategy” further down into the organization. For instance, suppose a subunit is pursuing a strategy of customer service. Within that subunit, the research function might contribute most to the organization by focusing, itself, on innovation. That is, innovation in the research function may contribute to customer service in the overall organization.

... many ... organizations may currently be striving to be more innovative; however, the human resource management system in the uniformed services is not structured to accomplish this organizational strategy effectively.

An organization that aligns its human resource management system around the organizational strategy of innovation would have the following characteristics:

- Entrepreneurial culture.
- Large proportion of well-educated and highly trained professionals.
- Jobs that require close interaction and coordination among groups of individuals.

The desired organizational outcomes associated with this strategy include shaping the environment to the needs of the organization; real-time response to environmental change (when shaping fails); and enhanced organizational performance through efficient application of technology and human capital. Organizational outputs⁹ that contribute to these outcomes include “centers of excellence” sought out by other agencies and organizations or the increased presence of recognized experts in the uniformed services.

A wide variety of organizations might choose innovation as an appropriate organizational strategy. Research labs, for example, would be candidates. Other potential users include the program management side of the acquisition community, organizations devoted to doctrine development, higher-level service schools, the information management community, and headquarters at all levels. In fact, many of these organizations may currently be striving to be more innovative; however, the human resource management system in the uniformed services is not structured to accomplish this organizational strategy effectively.

Quality Improvement

An organizational strategy of quality improvement focuses on providing a superior product or service. For example, Japanese car companies made significant gains of market share and were very profitable in the late 1970s and 1980s, largely by adopting this strategy. American car companies regained market share and profitability only when they, too, began to focus on quality.

Many other organizations, including the uniformed services, have focused on quality. However, within the uniformed services, this has, in most cases, taken the form of a “program” rather than an organizational strategy. The “quality movement,” as applied in business, encourages organizations to strive for “continuous quality improvement,” with the expectation that output of product or service will improve. But as an *organizational strategy*, the interest is in producing behaviors that result in quality improvement; this requires organizations to specifically design the human resource management system to produce those behaviors. The organizational strategy

⁹ This report distinguishes between “outcomes” and “outputs.” “Outcomes” are those major *end* results the organization is designed to produce that have value in and of themselves to the “customer” of the organization. “Outputs” are *intermediate* results the organization is designed to produce that contribute to organizational outcomes in identifiable ways, but which have no value in and of themselves to the “customers” of the organization. In this context, “a trained and ready force” would be an outcome; “retention” would be an output that contributes to the outcome. The distinction between outcomes and outputs has application in such arenas as the Government Performance and Results Act discussed in other parts of the report.

of quality improvement serves to inform decisions about how to structure subunits, manage and reward people, etc. In such a strategic context, total quality management *programs* would not only be fully consistent and appropriate, but they would also be more effective because the structure of the system itself would assist in motivating desired behaviors.

For the uniformed services, the organizational strategy of quality improvement can be formulated as *continually striving to improve the quality of the products or services provided to support customer needs*.

An organization that aligns its human resource management system around the organizational strategy of quality improvement would have the following characteristics:

- Focus on the process and on reliability and predictability.
- Measurable products and services.
- Emphasis on customer feedback, both internal and external.

The desired organizational outcomes associated with this strategy include improved support to operational units, greater confidence in the reliability of support units, provision of quality services to other governmental entities, and an improved image of the military as an efficient organization. Organizational outputs that contribute to these outcomes include continuous improvement in quality measures and external recognition of the organization reflected through awards.

Quality improvement as an organizational strategy might be appropriate for a variety of organizations or functions: maintenance, finance and logistics units focus on quality today; the acquisition, intelligence and medical communities are potential candidates; as are the education and training system and organizations operating national command and control systems.

Customer Service

An organizational strategy of customer service focuses on how well an organization responds to customer needs. By providing outstanding customer service, an organization is likely to satisfy its customers – external and internal. In the private sector, external customer satisfaction can lead to increased revenues, larger market share and higher profits; in the public and non-profit sectors, external customer satisfaction can lead to greater support for the organization, increased influence, increased resources and other, less tangible outcomes. Internal customer satisfaction, for both the private and public sector, can lead to improved relationships (in the form of trust, communications and/or coordination across functions) between the provider and the customer and, consequently, to better organizational performance.

Who are the customers of the uniformed services or their subunits? Clearly, there are internal customers: for an operational unit, they might be the unit's tasking authority; for a support organization, the customers might be the operational units. Externally, the uniformed services serve a multitude of customers, a characteristic shared with most other public sector organizations. In particular, those that provide the resources to the uniformed services (the Congress) are not the same customers

Internal customer satisfaction . . . can lead to improved relationships . . . between the provider and the customer and, consequently, to better organizational performance.

that receive the services (in the case of humanitarian aid, for instance). If the objectives of the two constituents do not coincide, then a dichotomy arises that may make this strategy more difficult to accomplish than for a private sector organization or a uniformed service subunit with a relatively distinct set of customers. One approach suggested for such organizations is to attempt to focus on *all* its constituents in combination – customers, employees and stakeholders,¹⁰ perhaps a strategy of “constituent service.”

For the uniformed services, the organizational strategy of customer service can be formulated as *identifying customers and their needs (both realized and unrealized) and focusing all activities on satisfying those customers.*

An organization that aligns its human resource management system around the organizational strategy of customer service would have the following characteristics:

- Processes that focus on the customer, both internal and external.
- Customized products and services.
- Emphasis on customer feedback systems.
- Timely delivery of products and services.

The desired organizational outcomes associated with this organizational strategy include responsive support services, particularly to operational units; elimination of unnecessary obstacles and more effective organizational performance; better provision of services to other governmental entities, and increased confidence in the reliability of support units. Organizational outputs that contribute to these outcomes include increasing customer satisfaction and closer integration of the activities of providers and customers.

Organizations that provide products or services that are available from non-military sources should be prime candidates for this strategy, particularly when satisfaction of needs is a primary consideration. The installation support, medical and the contracting side of the acquisition communities are potential candidates. The National Imagery and Mapping Agency has an explicit strategy of customer service – and although the human resource management system has been changed to accommodate this change in strategic direction, most of that change has occurred in the civilian human resource management system, and even there, obstacles to change remain. The school system could consider its students and their units as customers – a situation not unlike that of the public school system.¹¹ Likewise, the recruiting community and headquarters activities might choose a customer service strategy. Finally, any of the functional areas might focus on customer service because their *raison d’être* is to serve the operational units.

¹⁰ John P. Kotter and James L. Heskett, *Corporate Culture and Performance* (New York, NY: Free Press, 1992), p. 46.

¹¹ The United States Air Force Academy surveys the organizations to which recent graduates are assigned to determine if the Academy is providing officers the organizations need – meeting customer requirements.

Least Cost

An organizational strategy of least cost focuses on reducing operating costs below those of other organizations providing similar products or services. Private sector organizations that have successfully pursued this strategy include Southwest Airlines and Wal-Mart. Although public sector and non-profit organizations lack the direct linkage between costs and organizational performance that the profit equation provides, they face similar budget pressures to reduce costs.

This is certainly the case in the uniformed services. There is continuous budget-induced pressure – combined with relatively little budget flexibility in some areas – to reduce costs, outsource, downsize, restructure, reengineer processes, etc. Even when reengineering is considered, the requisite up-front investment is often not available. An organizational strategy of least cost applied so as to change fundamental “ways of doing business” could be viable for appropriate subunits of the uniformed services.

For the uniformed services, the organizational strategy of least cost can be formulated as *reengineering the operations of the organization to make it the least-cost provider of similar products or services without sacrificing requisite quality standards*.

An organization that aligns its human resource management system around the organizational strategy of least cost would have the following characteristics:

- Generally undifferentiated (or commodity-like) product or service.
- Stable environment.
- Semi-skilled production and clerical workers.
- Tight fiscal and management controls.
- Minimization of overhead.
- Pursuit of economies of scale.
- Focus on reducing the unit cost of output per person.

The desired organizational outcomes associated with this strategy include an improved image of the military as an efficient organization, increased support for the organization as a whole and provision of least-cost services to other governmental entities. Organizational outputs that contribute to these outcomes include reduced resource requirements and benchmarking standards for other parts of the organization.

This strategy is best suited to an organization whose product or service is generic enough that quality tends not to be an issue. If this is the case, it is likely that there would be multiple alternative sources of the product, so that it would be a candidate for outsourcing as well. An organization might pursue this strategy if it sought to provide a product or service to other government agencies or components of the uniformed services, particularly if there may be economies of scale in its production. Potential candidates for the least-cost strategy are functional activities such as benefits administration, payroll processing, logistics, and recruiting support;¹² installation support, contracting, and maintenance depots might adopt this strategy as well.

This strategy is best suited to an organization whose product or service is generic enough that quality tends not to be an issue.

¹² Or subfunctions within these functions.

The uniformed services have three characteristics that set them apart from other organizations, with implications for strategic human resource management: size, diversity and uniqueness.

Military Effectiveness

The uniformed services have three characteristics that set them apart from other organizations, with implications for strategic human resource management: size, diversity and uniqueness. *Size* and *diversity* suggest the possibility that different organizational strategies might be appropriate for different strategic subunits; *uniqueness* argues for an additional strategy not found in other organizations – military effectiveness. Within the Department of Defense, the strategy of military effectiveness would be applicable, in particular, to operational or war-fighting subunits.

The Department of Defense, composed of over two million active and reserve members, is an order of magnitude larger than the largest private sector organizations. In comparison, for example, Xerox, Quaker Oats, John Hancock, Chrysler, Merck, Bell Atlantic, AT&T, Citibank, Johnson & Johnson and Hewlett-Packard, *combined*, employ only 670,000. ¹³ Further, considering both war- and peace-time operations, the Department of Defense has more diverse missions and requires more core competencies than even a diversified multi-national conglomerate. Occupational specialties that have no private sector counterparts limit the potential for lateral transfers from the private sector to meet manpower needs. Along with the usual characteristics of public sector organizations – no “bottom line” of a profit and loss statement to measure effectiveness ¹⁴ and dependence on political leadership for resources and policy constraints – the Department of Defense also has a most unique requirement, to “obtain obedience from its members even unto death – and the killing of others.” ¹⁵ Figure 12 demonstrates the range of military operations. ¹⁶

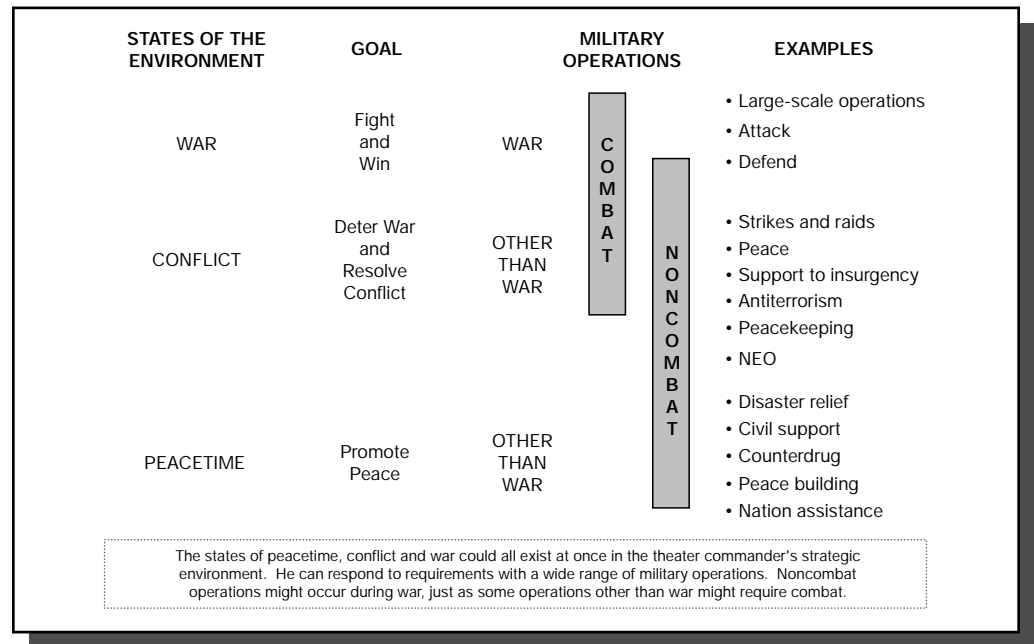


Figure 12 – Range of Military Operations in the Theater Strategic Environment

¹³ Lesley Alderman, “Get the Most from Your Company Benefits,” *Money*, January 1996, p. 104.

¹⁴ *Readiness* is probably the closest thing to a bottom-line measurement device the military has but it is only one aspect of *military effectiveness*.

¹⁵ Gwynne Dyer, *WAR* (Belmont, CA: Wadsworth Publishing Co., 1985), p. 102.

¹⁶ U.S. Department of the Army, *FM 100-5, Operations* (Washington, DC: Headquarters, U.S. Army, June 1993), p. 2-1.

Given the uniqueness of the armed forces and their primary mission, the organizational strategy of *military effectiveness* focuses on continually honing the capability of military units to fight and win the Nation's wars. That is, the "process by which armed forces convert resources into fighting power . . . deriv[ing] maximum combat power from the resources physically and politically available."¹⁷ Millett, Murray and Watman summarize the issues surrounding military effectiveness as follows:

Military activity is extraordinarily heterogeneous, and the existing measures of effectiveness fail to capture the full complexities of military organizations and their missions. Military activity has both vertical and horizontal dimensions. The vertical dimension involves the preparation for and conduct of war at the political, strategic, operational and tactical levels. Taken together, these categories form a hierarchy of actions which military organizations must coordinate from the highest policy levels to tactical execution. The horizontal dimension consists in the numerous, simultaneous, and interdependent tasks that military organizations must execute at each hierarchical level with differing levels of intensity in order to perform with proficiency. These tasks include manpower procurement, planning, training, logistics, intelligence, and technical adaptation as well as combat. An adequate definition of military effectiveness must include all these aspects of military activity.¹⁸

For the uniformed services, the organizational strategy of military effectiveness might be formulated as *ensure unit effectiveness in military operations, providing efficient, rapid-response capabilities over a range of national security contingencies*.

An organization that aligns its human resource management system around the organizational strategy of military effectiveness would have the following characteristics:

- Focus on being responsive and reliable.
- Culture based on a strong sense of duty and unit cohesion.
- Diverse forces that can adapt to wide range of contingencies.
- Joint operations.

Organizational outcomes associated with this strategy include operational units ready to deploy anywhere in the world on short notice, superior readiness for operational units when not deploying and operational units that are superior in warfighting capabilities to any potential future combatant. Organizational outputs that contribute to the outcomes set forth in the National Military Strategy include "quality people, [effective] leadership, realistic training, modern equipment, [optimum] force mix, and doctrine."¹⁹

The military effectiveness strategy could be an appropriate focus for strategic

¹⁷ Allan R. Millett, Williamson Murray and Kenneth H. Watman, "The Effectiveness of Military Organizations," in Allan R. Millett and Williamson Murray, eds., *Military Effectiveness*, Vol. 1 (New York, NY: Chapman & Hall, 1988), p. 2.

¹⁸ Millett, Murray, and Watman, p. 2.

¹⁹ Klevecz listed these as six areas critical to the success of Force XXI. Colonel Jack Klevecz, "Force XXI Joint Venture Overview Briefing for the 8th QPMC," Briefing presented to the 8th QPMC on February 6, 1996, Arlington, VA (Army Battle Lab Integration, Technology and Concepts Directorate, Ft. Monroe, VA).

subunits that constitute the “front lines” in operations delineated above. For them, characteristics such as unit cohesion, reliability and trust are particularly important; jointness is valued; ease of transfer among units is necessary; as are a cooperative environment with open communications, decision autonomy and emphasis on results over process. Operational and combat units, from the unified commands on down, could employ this organizational strategy.

Is There an Organizational Strategy in Place Today?

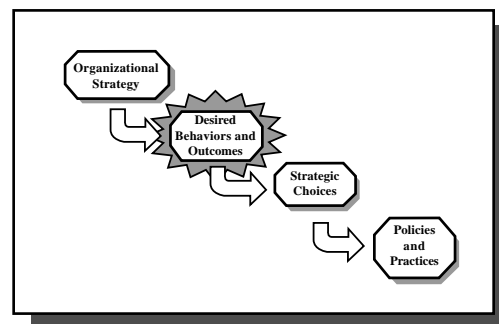
A review of service doctrine reveals no explicit statement of an organizational strategy as the term is used in this report. Perhaps the closest integrating theme guiding human resource management is one emphasizing the value of “retention.” Compensation, for example, tends to be focused on attracting and retaining the required number of quality people; with success usually measured in terms of retention statistics.

One could argue that the implicit organizational strategy in place today in the uniformed services is one of “military effectiveness” applied across the board (“one-size-fits-all”). As other chapters of this report demonstrate, not only could other strategies be potentially more effective for some subunits, but redesign of the human resource management system could contribute significantly to the success of operational units using an organizational strategy of military effectiveness.

Role Behaviors: Transforming Strategies into Actions

Role behaviors are the general kinds of characteristics and behaviors that are important for performance throughout an organization focused on a specific organizational strategy.

To implement a strategy successfully requires the acquisition and development of characteristics and behaviors – organizational role behaviors – that go beyond the skills, knowledge and abilities needed to perform specific tasks.²⁰ Role behaviors are the *general* kinds of characteristics and behaviors that are important for performance throughout an organization focused on a specific organizational strategy. For example, risk-taking, collaboration and commitment are important for performance in an organization focused on a strategy of innovation. Role behaviors relate closely to the character or the culture of the organization; they do not focus on specific duties and tasks.²¹ It is not necessary for every individual within the organization to display the desired role behaviors, only that the individuals collectively do so. Role behaviors collectively contribute directly to achieving the organization’s strategy.



²⁰ Today, however, through the human resource management system, the uniformed services focus almost entirely on the latter.

²¹ Myron D. Fottler, S. Robert Hernandez and Charles L. Joiner, *Strategic Management of Human Resources in Health Services Organizations*, 2nd ed. (Albany, NY: Delmar Publishers, 1994).

The term “role behaviors” was originally introduced by Schuler and Jackson.²² This report retains and focuses discussion on this term because behaviors are central to the design of human resource management systems. As will be seen, strategic choices, and in turn, policies and practices, are specifically chosen to engender the desired behaviors. In addition, the literature uses this concept to link strategy to policies and practices; this report also relies on this linkage to calibrate the operational model described below. Table 6 suggests several continua along which role behaviors may vary.

. . . behaviors are central to the design of human resource management systems.

Table 6 – Role Behaviors for Organizational Strategies²³

<i>Highly repetitive, predictable behavior</i>	↔	<i>Highly creative, innovative behavior</i>
<i>Very short-term focus</i>	↔	<i>Very long-term behavior</i>
<i>Highly cooperative, interdependent behavior</i>	↔	<i>Highly independent, autonomous behavior</i>
<i>Very low concern for quality</i>	↔	<i>Very high concern for quality</i>
<i>Very low concern for quantity</i>	↔	<i>Very high concern for quantity</i>
<i>Very low risk-taking</i>	↔	<i>Very high risk-taking</i>
<i>Very high concern for process</i>	↔	<i>Very high concern for results</i>
<i>High preference to avoid responsibility</i>	↔	<i>High preference to assume responsibility</i>
<i>Very inflexible to change</i>	↔	<i>Very flexible to change</i>
<i>Very comfortable with stability</i>	↔	<i>Very tolerant of ambiguity and unpredictability</i>

However, desired behaviors are not the final ends sought; rather, it is the outcomes resulting from these behaviors, singularly and in combination, that are of principal interest to the organization. For example, one end that might be sought is a common organizational culture, which is determined, in part, by such concepts as collaboration, shared values, conformity to norms and commitment. Another end might be organizational flexibility, which is determined, in part, by such concepts as adaptability, creativity and responsiveness. The literature generally fails to focus on outcomes. Although both outcomes and role behaviors are admittedly difficult to evoke, role behaviors often are easier to articulate, more measurable and more generalizable across organizations than desired outcomes - and role behaviors can serve as an effective step in identifying these more involved, but necessary, measures of organizational effectiveness. Consequently, *both* desired role behaviors and desired organizational outcomes must be identified in this step in the process.

Assuming that an organization has first examined environmental factors, identified its purpose, formulated a vision, mission, etc., and finally determined appropriate corporate and business strategies to pursue, it would then design a human resource management system to support these strategies – or more specifically, to bring about

²² Schuler and Jackson, pp. 207-209.

²³ This table was adapted from Schuler and Jackson, pp. 207-209.

There is no formula for identifying these behaviors systematically from the strategy itself; rather, thoughtful consideration is required with a focus on the organizational outcomes desired.

the role behaviors and outcomes required to accomplish these strategies. Role behaviors are the major metrics underlying the design of human resource management systems. Simply stated, the process is as follows: Strategy requires specific behaviors and outcomes, which then inform strategic choices, which in turn are used to develop policies and practices. “Strategy” in this formulation is the means by which the elements of the human resource management system are aligned. This report uses “organizational strategies” – from which desired role behaviors and outcomes can be ascertained – but the process can use the other aligning mechanisms suggested in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective*, Chapter 3 (and others) as well.²⁴ Whatever mechanism is used, the desired behaviors and outcomes must be ascertained. With a delineated set of desired behaviors and outcomes, the other steps of the process remain the same.

Each of the organizational strategies requires a different set of role behaviors and outcomes. There is no formula for identifying these behaviors systematically from the strategy itself; rather, thoughtful consideration is required with a focus on the organizational outcomes desired. The literature was useful in identifying role behaviors (and to a lesser extent, the outcomes) for the organizational strategies other than military effectiveness; the available data were based primarily on observations, in large part, anecdotal, of the behaviors that resulted within successful organizations that espoused the strategy. Identifying behaviors and outcomes for an organizational strategy of military effectiveness was based on a review of the, mostly internal, literature describing the military of the future, aggregating the different services (but relying most heavily on the availability of Army information related to Force XXI) and extensive discussions.²⁵ Table 7 portrays the role behaviors associated with the organizational strategies used in this report.

²⁴ Other mechanisms include core competencies, core processes, and work cultures. They are just as useful in aligning the elements of the human resource management system as “organizational strategies” – in some cases, more useful. The process described in this report can use these other mechanisms with only slight modification.

²⁵ For military effectiveness, the panel reviewed official documents published by the Department of Defense and the military services and met with selected service officials to better understand their core values and beliefs as well as their perspective regarding the behaviors that will be required in the future operational environments.

Table 7 – Role Behaviors Associated with Organizational Strategies

Customer service	Primary concern to satisfy customer High concern for quality High emphasis on assuming responsibility Relatively high degree of comfort with stability Long-term focus Moderate amount of cooperative, interdependent behavior Moderate concern for quantity of output Moderate risk-taking activity
Innovation	High tolerance of ambiguity and unpredictability High degree of creative behavior High degree of risk-taking Relatively high level of cooperative, interdependent behavior Longer-term focus Moderate concern for quality Moderate concern for quantity Equal degree of concern for process and results
Quality improvement	High concern for quality High concern for process High commitment to the goals of the organization Long-term or intermediate focus Relatively repetitive and predictable behavior patterns Moderate amount of cooperative, interdependent behavior Moderate concern for quantity of output Low risk-taking activity
Least cost	High concern for quantity of output and results Relatively high degree of comfort with stability Relatively repetitive and predictable behaviors Primarily autonomous or individual activity Short-term focus Moderate concern for quality Low risk-taking activity
Military effectiveness	A high concern for quality in operational skills High commitment to the goals of the organization Strict conformity to standards; high accountability A moderate concern for changing the process High tolerance both for ambiguity and unpredictability when executing missions and for relatively more stability at other times Relatively repetitive and predictable behaviors (train to standards) A very high degree of cooperative, interdependent behavior (unit cohesion) A short-term or intermediate focus A moderate concern for unit cost of output per person Moderate risk-taking activity Physical and moral courage Physical fitness and vigor

The relationship between desired role behaviors and these strategic perspectives is much less complete than would be needed for a distinctive organization. Importantly, however, even in the case of a specific organization pursuing a specific strategy that is different from those described here, the continua along which behaviors can be characterized will include at least those found in Table 6; consequently, the behaviors related to organizational strategies were used to “calibrate” the human resource management strategic choice model.

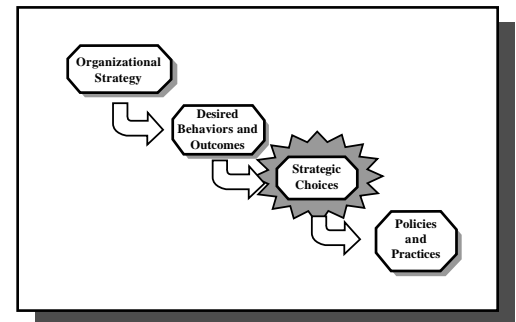
The leaders are in the best position to specify the behaviors and organizational outcomes desired.

. . . strategic choices guide the development of policies and practices to produce a vertically and horizontally aligned human resource management system.

The process relies heavily on the leadership of the organization for which the human resource management system is being designed for insight into the desired role behaviors and organizational outcomes. The leaders are in the best position to specify the behaviors and organizational outcomes desired. The human resource leader collaborates closely with the leadership of the organization to elicit these behaviors and outcomes. This part of the process will be difficult; however, the effort is extremely important to the design of a successful human resource management system.

Making Strategic Choices

Once the organization's leaders have determined desired behaviors, strategic choices are made along "dimensions" that characterize the principal features of the human resource management system. The choices an organization makes along each dimension are strategic because they establish the fundamental design (as opposed to merely the application) of the human resource management system. In other words, strategic choices guide the development of policies and practices to produce a vertically and horizontally aligned human resource management system.



Relating organizational strategies to desired role behaviors and outcomes is a subjective process. Similarly, relating desired role behaviors and outcomes to specific strategic choices along the dimensions is subjective, as well. In fact, in the latter case, less support can be found in the literature. Because of the nature of this part of the process, an example of how the strategic choices were made may be instructive.

The example below demonstrates the approach an organization might use to design a customized human resource management system, relying on the literature where it exists.²⁶

An Example

This example follows through the process to identify desired role behaviors and strategic choices for two generic organizational strategies: least cost and innovation.²⁷ The same process was used to produce the other generic²⁸ human resource management systems described in this report. A design panel, composed of members of the uniformed services and human resource management consultants, was used in order to ensure a breadth and depth of knowledge both of the uniformed services and of the

²⁶ For example, see Wayne F. Cascio, *Managing Human Resources: Productivity, Quality of Work Life, Profits*, 4th ed. (New York, NY: McGraw-Hill, 1995), pp. 570-572.

²⁷ These two strategies were selected for the example because they provide the clearest contrast in the strategies considered.

²⁸ This section does not describe a *customized* system, which is beyond the scope of this report and would require extensive specific information about the characteristics of a given organization and a clear understanding of its specific environment.

practice of human resource management in other organizations. The panel relied on the literature, visits with a variety of organizations, service assessments of desired future behaviors and personal judgment to make the determinations discussed below.

The panel began with an in-depth investigation of each strategy to gain a clear understanding of what the strategy implies, what the desired outcomes and behaviors are, and how and why the strategy is generally employed. The literature provided limited insight into the relationship between organizational strategies and behavior (Table 8) and between organizational strategies and policies and practices (Table 9). However, the available information informed the panel's discussion of strategic choices.

Table 8 – Literature Findings: Organizational Strategies and Behaviors

LEAST COST	INNOVATION
<ul style="list-style-type: none"> • Tight fiscal management controls, minimization of overhead and pursuit of economies of scale. Primary objective is to increase productivity by decreasing the unit cost of output per employee.²⁹ • Keyed to maximizing return on fixed assets.³⁰ • Tightly controls costs, refrains from incurring unnecessary innovation or marketing expenses, and cuts prices in selling a basic product . . . the organization structure is characterized by tight control; extensive work specialization (tasks are subdivided into separate jobs), high formalization (jobs are highly standardized) and high centralization.³¹ • Organizations that have a major share of the market and attempt to retain that share emphasize planning and cost control rather than a search for new products. The resulting structure tends to be relatively bureaucratic, emphasizing high horizontal differentiation, centralized control, an elaborate hierarchy and extensive formalization.³² • In cost leadership . . . a firm sets out to become the low cost producer in its industry. The firm has a broad scope and serves many industry segments, and may even operate in related industries – the firm's breadth is often important to its cost advantage. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. . . . A low cost producer must find and exploit all sources of cost advantage. Low cost producers typically sell a standard or no-frills product and place considerable emphasis on reaping scale or absolute cost advantages from all sources.³³ 	<ul style="list-style-type: none"> • Recognizes and formalizes the roles, processes, rewards and people practices that naturally lead to innovations . . . It is the combination of people who generate ideas, appropriate participation for them, management that enables them, funding for ideas, and rewards for success that increase the odds in favor of innovation.³⁴ • The innovation strategy is used to develop products or services different from those of competitors; the primary focus here is on offering something new and different.³⁵ • Common skills and resources: strong marketing abilities; product engineering; creative flair; strong capability in basic research; corporate reputation for quality or technological leadership; long tradition in the industry or unique combination of skills drawn from other business; strong cooperation from channels; strong coordination among functions in R&D, product development, and marketing.³⁶ • Objective is to develop unique products or services. Characteristics: organized along the organic model; unstable, even turbulent environments; entrepreneurial culture; key employees should be outward-oriented; employ a large proportion of well educated and highly trained individuals, customarily referred to as <i>professionals</i>.³⁷

²⁹ Cascio (1995), pp. 291-292.

³⁰ Flannery, Hofrichter and Platten, p. 132.

³¹ Stephen P. Robbins, *Essentials of Organizational Behavior*, 3rd ed. (Englewood Cliffs, NJ: Prentice Hall, 1992), p. 570

³² Raymond E. Miles and Charles C. Snow, *Organizational Strategy, Structure, and Process* (New York, NY: McGraw-Hill, 1978).

³³ Porter (1985), pp. 12-13.

³⁴ Jay R. Galbraith, *Designing Organizations: An Executive Briefing on Strategy, Structure, and Process* (San Francisco, CA: Jossey-Bass Publishers, 1995), p. 17.

³⁵ Schuler and Jackson, p. 208.

³⁶ Michael E. Porter, *Competitive Strategy* (New York, NY: Free Press, 1980), pp. 40-44.

³⁷ Jan P. Muczyk, "The Strategic Role of Compensation," *Human Resource Planning*, Vol. 11, No. 3 (1988), pp. 231, 235-236.

Table 9 – Literature Findings: Organizational Strategies and Policies and Practices

LEAST COST	INNOVATION
<ul style="list-style-type: none"> • Typology of human resource management for a least-cost strategy:³⁸ <ul style="list-style-type: none"> – Relatively fixed (stable) and explicit job descriptions that allow little room for ambiguity. – Narrowly designed jobs and narrowly defined career paths that encourage specialization, expertise and efficiency. – Short-term, results-oriented performance appraisals. – Close monitoring of market pay levels for use in making compensation decisions. – Minimal levels of employee training and development. • The profile of role behaviors for employees and managers suggests that an assessment of the contributions of the human resource management function should emphasize the control of labor costs associated with collective bargaining agreements, dysfunctional turnover and unscheduled employee absenteeism. Low-cost options associated with the control of health care costs and fire and life insurance premiums should be implemented and assessed.³⁹ • To align with a least-cost strategy, the organization would use individual incentive plans wherever practical, and where not, group plans; employees' compensation would be tied to output of the individuals or group they support; leadership compensation would be tied to output of subordinates; the system would use gainsharing if incentive plans were impractical. A least-cost strategy would work best when the workforce is generally semi-skilled production and clerical workers and the environment is stable.⁴⁰ 	<ul style="list-style-type: none"> • Considerations should include:⁴¹ <ul style="list-style-type: none"> – Jobs that require close interaction and coordination among groups. – Performance appraisals that are more likely to reflect longer-term and group-based achievements. – Jobs that allow employees to develop skills that can be used in other positions in the firm. – Compensation systems that emphasize internal equity rather than external or market-based equity. – Pay rates that tend to be low, but that allow employees to be stockholders and have more freedom to choose the mix of components (salary, bonus, stock options). – Broad career paths to reinforce the development of a broad range of skills. • Human resource strategy should emphasize the use of highly valid selection and training programs as well as the reduction of controllable turnover, especially among high performers, who are hard to replace.⁴² • A human resource strategy should: <ul style="list-style-type: none"> – Focus primarily on the utility of selection and training programs and on reducing controllable turnover (especially among high performers who are not easy to replace) – Maintain a long-term focus on the personal and professional development of employees – Formulate "employee-retention plans" offering incentive bonuses.⁴³

The panel made initial choices along each of the 44 human resource dimensions (namely, scored the dimensions).⁴⁴ For each strategy, the panel:

- Scored dimensions that the literature specifically addressed. Two or three panel members would investigate a particular strategy and score those dimensions for which the literature was specific and consistent.
- Scored dimensions where the literature was conflicting or not addressed. Where the literature was conflicting or vague, the panel met and discussed the choices within the context of the particular strategy and the types of

³⁸ Schuler and Jackson, p. 213.

³⁹ Cascio (1995), pp. 291-292.

⁴⁰ Muczyk, pp. 234-235.

⁴¹ Schuler and Jackson, p. 213.

⁴² Schuler and Jackson, p. 289.

⁴³ Wayne F. Cascio, *Costing Human Resources: The Financial Impact of Behavior in Organizations*, 3rd ed. (Boston, MA: PWS-Kent Publishing, 1991), p. 289.

⁴⁴ Those 44 dimensions should be used as a starting point for discussion; organizations may then tailor them as appropriate to fit their unique situations.

behaviors that were desired. In some cases, these discussions resulted in insights regarding the interrelationships with other dimensions which, in turn, resulted in consensus on how the dimension should be scored.⁴⁵

- Scored dimensions where panel members had different perspectives. In most cases, discussions lead to a common understanding and agreement on the appropriate choice. In a few cases, the discussion of certain dimensions were quite lengthy and sometimes spanned two or three panel sessions, including additional, informal one-on-one dialogue. The different perspectives generally were due to one or more of the following factors:
 - Definitional differences. This is one means whereby the original 44 dimensions were refined.
 - Institutional differences. The varying backgrounds of the panel members resulted in scoring using different organizational images. These differences were generally more of degree than direction of choice. Again, review of the types of organizations applying to the particular strategy was often useful in resolving these differences.⁴⁶
 - Philosophical differences. In a few cases, differences were due to basic philosophical differences and beliefs on how an organization *should* organize, manage and reward members.

When differences were not fully resolved, the majority viewpoint was used.⁴⁷

Following the initial scoring, the results were discussed with a panel of independent human resource management experts. In many cases, these discussions reinforced the choices that had been made, while in other cases new insights were gained that allowed further refinement of applicable choices for each strategy. The second panel, using its expertise on a range of human resource management policies and practices used in various organizations, then developed and presented an initial description of a human resource management system based on the initial set of strategic choices. Subsequently, further adjustments to the initial scoring were considered.

⁴⁵ For military effectiveness, selected military personnel representing the uniformed services with backgrounds in various warfighting skills conducted several lengthy interactive focus sessions over a two-week period to determine what the choices *should* be for each of the human resource management dimensions for an operational unit which had a strategy of military effectiveness. In addition, this focus group, scored what they believed were the current “default” strategic choice was for each dimension today. This focus group identified significant differences between military effectiveness and the current system along the following dimensions:

- Individualism vs. collaboration.
- Reactive vs. proactive.
- Steep structure vs. flat structure.
- Simple job design vs. holistic job design.
- Narrow career paths vs. broad career paths.
- Objective vs. subjective appraisals.
- Single source vs. multiple source evaluations.

⁴⁶ This type of difference occurred in several cases during the initial scoring of the current system, a result of different service perspectives.

⁴⁷ An example was the scoring of flexible versus fixed benefits for military effectiveness, where there was significantly different perspectives regarding the degree to which service members could be trusted to make informed decisions if given a choice regarding certain benefits.

Interactive effects among the strategic choices were investigated using the model described in Chapter 6. The model provided a foundation for discussing assumptions and relationships among human resource management system components, and allowed informed exploration of alternative sets of strategic choices. This investigation included a team composed of modelers, military compensation and personnel management experts, as well as members of the initial panel, and resulted in further refinements to the initial choices. Table 10 depicts the worksheet the panel used to make strategic choices along the human resource management dimensions.

Table 10 – Strategic Choices for Least Cost (L) and Innovation (I) ⁴⁸

LEADERSHIP AND COMMUNICATION CHOICES			
Risk Averse	Ⓐ	Ⓐ	Risk-taking
Results	Ⓐ	Ⓐ	Process
Individualism		Ⓐ	Collaboration
Transitional	Ⓐ	Ⓐ	Transformational
Fixed Work Policies	Ⓐ	Ⓐ	Flexible Work Policies
Short Term	Ⓐ	Ⓐ	Long Term
Directive (Compliance, Judge)		Ⓐ	Participative (Empowerment, Coach)
Reactive	Ⓐ	Ⓐ	Proactive
Low Decision Autonomy	Ⓐ	Ⓐ	High Decision Autonomy
Low People Orientation		Ⓐ	High People Orientation
Low Concern for Quality of Work Life		Ⓐ	High Concern for Quality of Work Life
Closed (Secret)	Ⓐ	Ⓐ	Open
Least Cost= Ⓐ Innovation= Ⓐ			

(continued)

⁴⁸ Note: These choices are consistent with “generic” strategies. When tailored to specific organizations, however, they may vary significantly. Organizations desiring to emphasize choices that are “inconsistent” with a particular strategy may make a special effort to implement them in a way that supports the strategy. For example, Toyota’s “lean manufacturing” concept successfully emphasizes “decision autonomy,” “people orientation” and “quality of work life” in pursuit of what is arguably a least-cost manufacturing strategy.

Table 10 – Strategic Choices for Least Cost (L) and Innovation (I) (continued)

COMPENSATION CHOICES			
Job	Ⓛ	-----	Ⓢ
	Ⓛ	-----	Ⓢ
Hierarchical	Ⓛ	-----	Ⓢ
Internal Consistency (Equity)	Ⓛ	-----	Ⓢ
Membership (Longevity)	Ⓛ	-----	Ⓢ
Fixed Pay	Ⓛ	-----	Ⓢ
Individual Pay	Ⓛ	-----	Ⓢ
Low Investment in Benefits	Ⓛ	-----	Ⓢ
Fixed Benefits	Ⓛ	-----	Ⓢ
Monetary Rewards	Ⓛ	-----	Ⓢ
Scheduled Rewards	Ⓛ	-----	Ⓢ
Frequent Rewards	Ⓛ	-----	Ⓢ
Skill	Ⓢ	-----	Ⓢ
Egalitarian	Ⓢ	-----	Ⓢ
External Competitiveness (Equity)	Ⓢ	-----	Ⓢ
Performance	Ⓢ	-----	Ⓢ
Variable Pay	Ⓢ	-----	Ⓢ
Group Pay	Ⓢ	-----	Ⓢ
High Investment in Benefits	Ⓢ	-----	Ⓢ
Flexible Benefits	Ⓢ	-----	Ⓢ
Nonmonetary Rewards	Ⓢ	-----	Ⓢ
On-the-spot Rewards	Ⓢ	-----	Ⓢ
Infrequent Rewards	Ⓢ	-----	Ⓢ
STAFFING CHOICES			
Internal Labor Supply (Grow Our Own)	Ⓛ	-----	Ⓢ
Narrow Career Paths	Ⓛ	-----	Ⓢ
Vertical Development	Ⓛ	-----	Ⓢ
Screen by Attrition	Ⓛ	-----	Ⓢ
Job Fit (Limited Socialization)	Ⓛ	-----	Ⓢ
External Labor Supply (Hire the Best)	Ⓢ	-----	Ⓢ
Broad/Multiple Career Paths	Ⓢ	-----	Ⓢ
Horizontal Development	Ⓢ	-----	Ⓢ
Extensive Initial Screening	Ⓢ	-----	Ⓢ
Organizational Fit (Extensive Socialization)	Ⓢ	-----	Ⓢ
PERFORMANCE MANAGEMENT CHOICES			
Quantitative (Objective)	Ⓛ	-----	Ⓢ
Evaluative	Ⓛ	-----	Ⓢ
Single Source Evaluation (Traditional)	Ⓛ	-----	Ⓢ
Individual Appraisals	Ⓛ	-----	Ⓢ
Results Criteria	Ⓛ	-----	Ⓢ
Cross Section Comparison	Ⓛ	-----	Ⓢ
Qualitative (Subjective)	Ⓢ	-----	Ⓢ
Developmental	Ⓢ	-----	Ⓢ
Multiple Source Evaluation (Participative)	Ⓢ	-----	Ⓢ
Team/Group Appraisals	Ⓢ	-----	Ⓢ
Behavior Criteria	Ⓢ	-----	Ⓢ
Time Series Comparison	Ⓢ	-----	Ⓢ
Least Cost= Ⓛ Innovation= Ⓢ			

CHAPTER 6

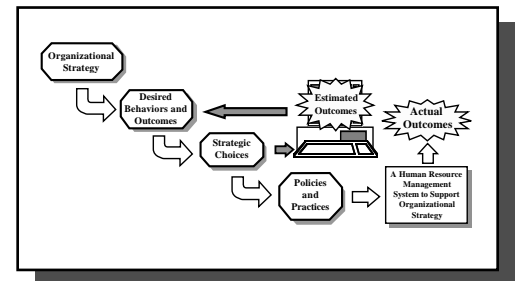
HUMAN RESOURCE MANAGEMENT STRATEGIC CHOICE MODEL

Key to the effective conduct of strategic human resource management is the ability to align the human resource management system with the strategic intent of the organization. Human resource managers attempt, with greater or lesser degrees of success, to accomplish this task based on experience, consultants' advice, benchmarking other organizations, fads and other more questionable bases. However, no systematic mechanism was found for aligning policies and practices with strategy; this was the genesis of the model described in this chapter.

Purpose of the Model

The forecasting and econometric models used by the uniformed services effectively address the basic requirements for which they were designed. Many of these models incorporate state-of-the-art methodologies that provide insights into different modeling areas within human resource management. Individually, however, each of these models considers

only a small sampling of the components and elements that comprise a human resource management system.¹ As valuable as these models have been for addressing important questions involving compensation and personnel management systems, they are not designed to capture the significant interrelationships important to strategic human resource management.



The model is an operational tool for aligning human resource management policies and practices with an organization's strategy.

To overcome the narrow, subsystem focus of current models, the 8th Quadrennial Review of Military Compensation developed an innovative approach to modeling the human resource management system based on an integrated system discussed in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective*, Chapter 3. This model causally links human resource policies and practices to individual and organizational performance. The model is an operational tool for aligning human resource management policies and practices with an organization's strategy. No such framework exists today to accomplish this task – the essence of strategic human resource management – in a structured and replicable way.

¹ A comprehensive summary of the models from this perspective is found in Bernard D. Rostker, "Human Resource Models: An Overview," in Wayne Hughes, ed. *Military Modelling for Decisions*, 3rd ed. (Alexandria, VA: Military Operations Research Society, publication pending).

The model, for the first time, takes a system-wide view of human resource management that captures the full richness of qualitative interrelationships among components of the human resource management system. The causal linkages between policies and practices (as represented by strategic choices along the human resource management dimensions) and the resulting organizational behaviors are explicitly portrayed. This model allows leaders to explore and evaluate alternative human resource management systems and complements the quantitative models used today.

Description of the Model

The model organizes the available information/knowledge into a logically consistent framework that allows a systematic evaluation of human resource management system designs. It codifies reasoning about human resource management system strategic choices and provides a framework within which to assess the impacts of different strategic choices on the organization's performance.

Basis

The relationships in the model are based on a review of academic research and of applications in human resource management. This review resulted in an extensive but somewhat disconnected knowledge base. To better organize this knowledge, the results of the initial review were reduced to a set of propositions or assertions that connect human resource management strategic choices to organizational results.

The initial pool of propositions varied in type and strength of underlying support. At one end of the spectrum were the purely theoretical constructs without supporting empirical evidence. At the other end of the spectrum were the purely empirical propositions, often from reports of human resource management practitioners, lacking a theoretical basis.

This initial pool of propositions was reduced to a smaller, more manageable list. Each candidate proposition was evaluated for the type and strength of its support. Selection favored those propositions with both a theoretical and empirical foundation. However, propositions supported by multiple theories, especially propositions derived from cross-disciplinary theories, were included. Also selected were empirical propositions with strong, continuing and multiple-source support.

The final proposition list contains more than 300 assertions gathered from more than 100 primary and secondary sources. An extract of the proposition list is shown below.

This model allows leaders to explore and evaluate alternative human resource management systems and complements the quantitative models used today.

The model . . . codifies reasoning about human resource management system strategic choices and provides a framework within which to assess the impacts of different strategic choices on the organization's performance.

Table 11 – Examples of Propositions

REFERENCE NUMBER	INDEPENDENT VARIABLE	DIRECTION OF RELATIONSHIP	DEPENDENT VARIABLE	CATEGORY	SOURCE
1	screening	+	retention	personnel	Champy
2	autonomy	+	vertical skill development	leadership	Lawler in Strategic Pay
3	base pay	+	attract employees	compensation	Lawler in Strategic Pay
4	base pay	-	performance line-of-sight ²	compensation	Lawler in Strategic Pay

The propositions show the effect of an independent variable on a dependent variable and assert a “direction” for the relationship. For example, in proposition reference number 3, Lawler asserts that increasing (decreasing) base pay results in increased (decreased) attraction of employees. However, Lawler also asserts that increasing base pay reduces performance line-of-sight (proposition 4).

The final proposition list formed the basis for the relationships embedded in the model.

General Overview

Using the proposition list, the information was grouped into three broad categories:

- Human resource management strategic choices – independent variables that the human resource leaders control.
- Outputs – intermediate variables that may be of interest themselves or that influence organizational outcomes.
- Organizational outcomes – predicted variables that summarize the impact of strategic choices on the organization’s performance.

A missing element in many of the propositions was an explanation of *why* different strategic choices produced changes in an output or outcome variable. This was partially solved by using the results of Thomas and Jansen’s ³ research into intrinsic non-task motivation and self-management, as well as other research on intrinsic and extrinsic motivation. ⁴ Incorporating motivation and management into the model provided an explanatory bridge between human resource management strategic choices and outputs or organizational outcomes.

The resulting model combines the results of research with the judgment of recognized human resource management experts. It explicitly portrays the richness of the causal linkages underlying the elements of the human resource management system

Incorporating motivation and management into the model provided an explanatory bridge between human resource management strategic choices and outputs or organizational outcomes.

² Performance line-of-sight is how directly the employee perceives that pay is tied to performing specific tasks.

³ Thomas and Jansen.

⁴ For further information, see “Working Paper on Intrinsic Motivation and Rewards” in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Working Papers*.

and their relationship to organizational performance. Figure 13 displays a general overview of the model.

The human resource management strategic choice model is an innovative operational tool for creating, comparing or modifying human resource management systems. It allows system designers to align the policies and practices of a human resource management system with the organization's strategy.

The . . . model is an innovative operational tool for creating, comparing or modifying human resource management systems.

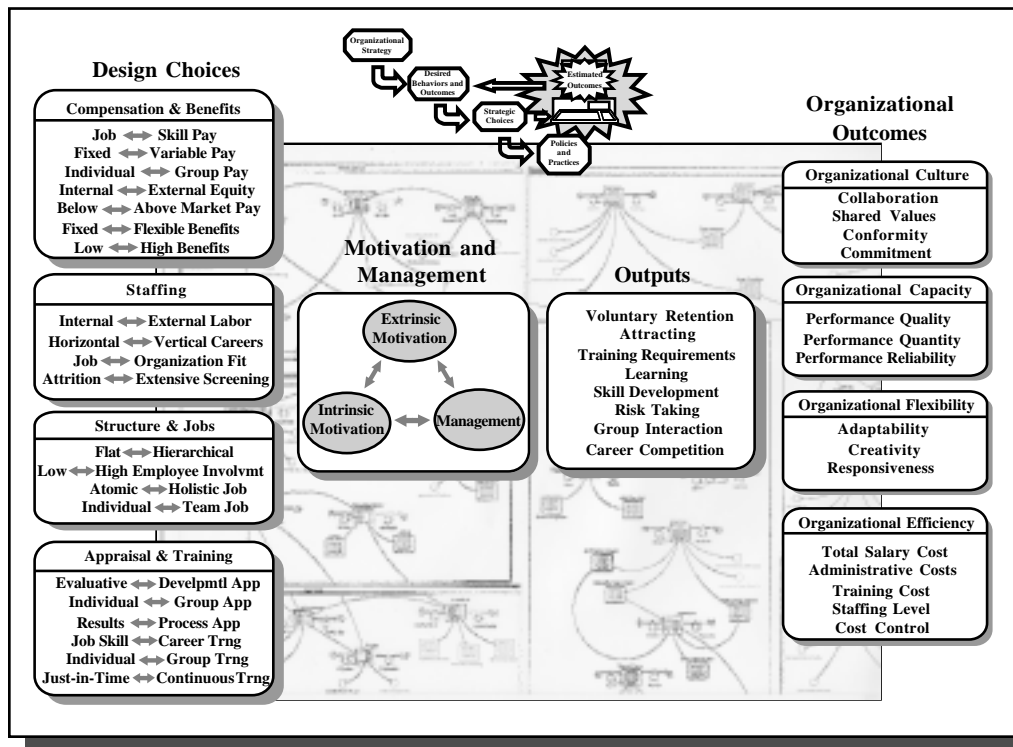


Figure 13 – Human Resource Management Strategic Choice Model

Model Construction

Linkages between the design choices, outputs and organizational outcomes were based on the proposition list and the motivation and management processes. As an illustration of the model construction, consider the organizational outcome “responsiveness.” Responsiveness is defined as *the degree to which the organization promptly reacts to demands or influences to adjust the type or quality of its product(s) or service(s).* As shown in Figure 14, responsiveness is a function of external management, self-management, skill development and collaboration. These relationships were based on propositions asserting that increasing (decreasing) self-management, skill development, or collaboration will cause responsiveness to increase (decrease).⁵ According to the propositions, external management has a slightly different effect on responsiveness. Modest amounts of external management cause responsiveness to increase; however, excessive external management interferes with responsiveness and may slow reaction time.⁶

⁵ This relationship is denoted in this figure with the “+” sign.

⁶ This is denoted in the figure by “+/-” which indicates the relationship is initially direct – increases lead to increases – and then inverse – further increases lead to decreases.

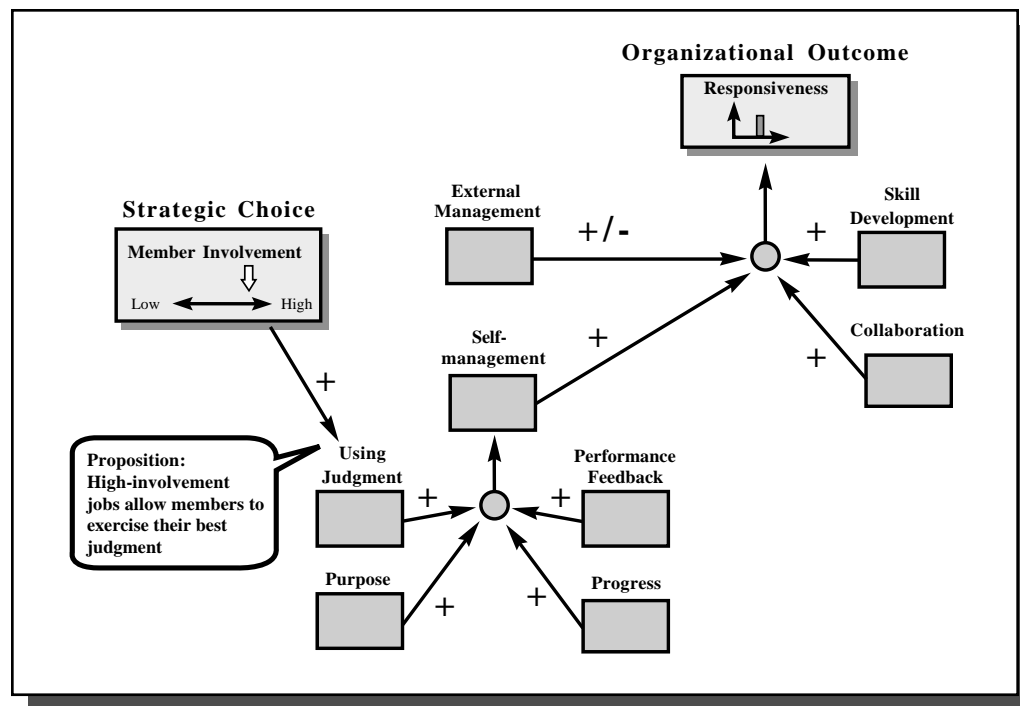


Figure 14 – An Example of Internal Relationships

Figure 14 also depicts Thomas and Jansen’s overall construct for self-management. As can be seen, self-management increases as a function of the opportunity to use judgment, organize and work toward a purpose, monitor progress toward a goal and receive performance feedback.

This illustration hypothesizes that adjustments to the amount of employee involvement produce different levels of responsiveness. Varying the level of employee involvement directly affects the opportunity to use judgment and, hence, self-management, which in turn influences responsiveness.

Only one of the many relationships between the design choices and self-management is shown in Figure 14. The overall model contains 21 design choices, 8 outputs, 15 outcomes and over 150 relationships. The actual implementation of the model uses *ithink*®, a system-dynamics modeling package. Though able to reflect complex interrelationships, the model is relatively transparent as a result of the modeling methodology selected. This permits results, expected and unexpected, to be explained fairly easily in terms of the relationships hypothesized to have caused them.

Calibrating the Model

Because the model could not be tested directly, a panel of human resource management experts refined the model and calibrated the results.

The panel conducted a series of reviews that examined each output, organizational outcome, and relationship represented in the model. The modifications recommended by the panel resulted in a refined model it judged to have *prima facie* validity.

The overall model contains 21 design choices, 8 outputs, 15 outcomes and over 150 relationships.

Two independent subpanels of experts each designed four generic human resource management systems⁷ without using the model but considering the design choices, outputs and desired organizational outcomes available in the literature. Subsequently, the two subpanels carefully reviewed each other's designs and then produced four consolidated prototype human resource management systems.

The four prototype systems were used as a comparative baseline in calibrating the model. The strategic choices underlying each prototype human resource management system were used as inputs to the model. The model results were then compared to those of the prototypes. If differences were observed, the weighting of individual propositions or relationships in the model were changed so that the model results converged with the experts' opinions. This was repeated for each of the four prototype systems until a common set of weights and a final configuration of relationships could produce the outcomes expected for each set of inputs.

The resulting model thus combines the results of research with the judgment of recognized human resource management experts. Although in many cases the available information was incomplete, uncertain or inexact, this is also true of the practice of human resources management. In fact, human resource management systems are almost always designed – and even operated – based on partial knowledge, generalizations and inferences. The model, offers for the first time, a logically consistent framework that can systematically evaluate human resource management system designs. It is an operational tool for aligning the policies and practices of a human resource management system with the strategy of an organization.

The . . . model . . . combines the results of research with the judgment of recognized human resource management experts.

Application of the Model

This section provides an overview of the model in operation. It uses an organizational strategy of innovation to illustrate the process.

An organization pursuing an organizational strategy of innovation can be characterized, in terms of organizational outcomes, as desiring high levels of:

- Adaptability – the ability of the organization to reorganize itself for a new use or situation.
- Creativity – the ability of the organization to create new methods that improve the quality, quantity or efficiency of its performance or to create new products or services.
- Responsiveness – the promptness with which the organization reacts to demands or influences to adjust the type or quality of its products or services.

⁷ One generic system was designed to support each of the following organizational strategies: innovation, quality improvement/customer service, least cost and military effectiveness.

The model is discussed in terms of the set of inputs (strategic choices along the dimensions that characterize a human resource management system) that will produce the increased levels of adaptability, creativity and responsiveness while simultaneously evaluating the trade-offs in other organizational outcomes.⁸

Inputs

Each of the 21 dimensions (independent variables) included in the model can be thought of as a *continuum*. End points represent the extremes for each choice. Figure 15 displays just the compensation and benefit dimensions, as well as the possible settings for an organizational strategy of innovation. For example, the choice along the dimension, “Job \leftrightarrow Skill Pay” shown in Figure 15 determines the relative emphasis that is placed on job-based pay versus skill-based pay in the design of the policies and practices for the compensation component of the human resource management system. The horizontal bar indicates, that for a strategy of innovation, skill-based pay is heavily emphasized relative to job-based pay. In contrast, the horizontal bar for “Low \leftrightarrow High Benefits” indicates the choice of an average (neither especially low or high) level of benefits.

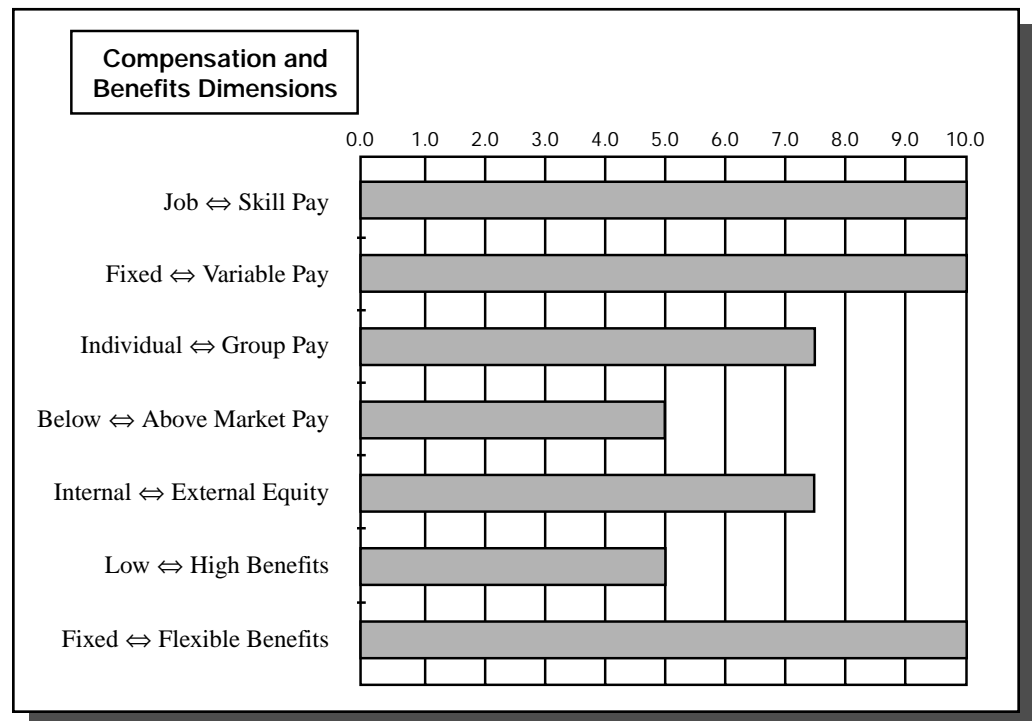


Figure 15 – Design Choices for an Organizational Strategy of Innovation

⁸ This example focuses on these three outcomes as the most important of the 15 included in the model as they apply to the strategy of innovation. The outcomes are affected through a complex set of relationships in the model; this requires trade-offs. This, in turn, requires identification and focus on the most important. In addition, the actual application of this process may require outcomes other than the 15 included in the model and reconfiguration of the relationships in the model.

Outcomes

The model calculates the relative impact on the organizational outcomes of the combined set of choices along each of the 21 dimensions. Each output and outcome was measured along a continuous scale from 0 to 10. Values represent the “expected” level of outcomes based on the weighting of the propositions contained in the model.⁹

Figure 16 displays some of the results for an organizational strategy of innovation. For example, given the set of design choice inputs, the organization could be expected to exhibit relatively low levels of “external management.” The same set of design choice inputs should result in high levels of “self-management” and “skill development.” Similarly, these inputs results in high levels of “collaboration” and “responsiveness.”

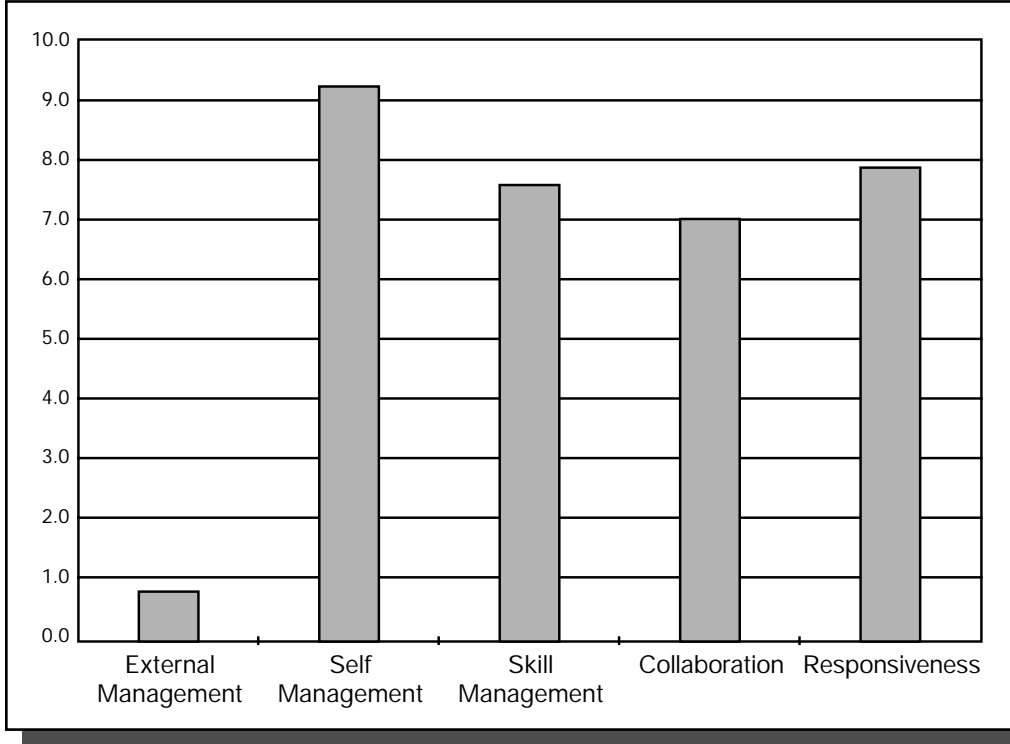


Figure 16 – Results of Design Choices for a Strategy of Innovation

⁹ The weight of an individual proposition (Σ_i) is based on the odds ratio:

$$\lambda_i = \frac{O(H | E_i)}{O(H)}$$

where $O(H)$ is the prior odds of a variable H and $O(H/E_i)$ is the posterior odds of the variable H given additional information about variable E_i . A set of fuzzy inference rules combines the propositions weights (where necessary) and determines their overall weighting (Σ_e).

If the variables are considered independent:

$$\text{that is } \begin{matrix} E_1 \rightarrow H \\ E_2 \rightarrow H \\ \vdots \\ E_n \rightarrow H \end{matrix} \quad \text{then} \quad \lambda_e = \prod_{i=1}^n \lambda_i$$

For conjunctions, where all variables must be present: that is $(E_1 \cap E_2 \cap \dots \cap E_n) \rightarrow H$ then $\lambda_e = \min(\lambda_i)$

For disjunctions, where only one of several variables must be present:

$$\text{that is } (E_1 \cup E_2 \cup \dots \cup E_n) \rightarrow H \quad \text{then} \quad \lambda_e = \max(\lambda_i)$$

Σ_e is used to revise the value of the variable H .

The numeric scale used for the results is ordinal – in other words, values are used only as a means of arranging the qualitative results in order, from smallest to the largest.

The strategic decisions this model supports may have far more profound implications than many changes that can be evaluated with significantly greater precision . . .

Interpreting the Results

Because of the qualitative nature of the information and knowledge represented in the model, the results are also qualitative. The numeric scale used for the results is ordinal – in other words, values are used only as a means of arranging the *qualitative* results in order, from smallest to the largest. Only comparisons of “greater,” “less” or “equal” between values are valid.

For example, suppose one set of strategic choices resulted in a self-management value of 6 and a second set of strategic choices produced a self-management value of 2. In this case, the most that can be concluded is that the first set should produce “greater” levels of self-management than the second set. It would be *incorrect* to conclude that the first set of strategic choices results in levels of self-management three times greater than the second set.

In addition, comparisons between the effects of strategic choices on different outputs or outcomes are not appropriate. For example, it would be misleading to compare values along the scale of “external management” to values along the scale of “skill development.” In other words, a value of 8 for external management can not be validly compared to a value of 4 for skill development, implying that the set of strategic choices produces “more” external management than skill development. Only comparisons of the effect of different sets of strategic choices in terms of the same output or outcome are appropriate.

That the model can not be used in the traditional sense of “predicting” the effect of changes in the policies and practices or that it lacks the “usual” empirical underpinning should not temper the unique and significant contribution it makes to the process of strategic alignment of policies and practices. The strategic decisions this model supports may have far more profound implications than many changes that can be evaluated with significantly greater precision (in large part because of their limited scope of effect). Although it would be ideal to have more quantitative assessments on which to make fundamental changes to the human resource management system, decisions can not wait for them to be developed (assuming that such assessments can ever be developed). The human resource management strategic choice model provides a substantial operational tool with which to conduct a structured, thoughtful analysis of an extraordinarily complex undertaking. It can not predict precise outcomes; but it can substantially inform the process and highlight potential areas that require greater testing before implementation of policies and practices or identify potential unintended consequences.

Model Applications

The model proved to be extremely useful in the design and evaluation of human resource management systems. Initially, “generic” human resource management systems were designed to support four “pure” organizational strategies (innovation, quality, least cost, improvement/customer service and military effectiveness). The model confirmed the basic tenet that an organization’s strategy can be best attained through a unique human resource management system specifically designed to achieve

its desired outcomes. The model was also used to compare two generic human resource management systems to determine the trade-offs among outcomes between different systems, to modify the generic systems to produce customized systems and to create new human resource management systems that motivate the behaviors required to achieve specific organizational outcomes. The remainder of this chapter discusses these four applications of the model (creating generic, comparing generic, modifying generic and creating new human resource management systems).

Creating Generic Human Resource Management Systems

One of the generic human resource management systems was designed to support the “pure” organizational strategy of military effectiveness. The first step in the design process determined the outcomes desired by an organization pursuing this strategy. Using the set of organizational outcomes available in the model, a panel of experts discussed each outcome and decided on the subset of outcomes necessary, in their judgment, to ensure military effectiveness.

Even at this stage of the process, the model proved useful. First, the graphical depiction of the model focused attention on organizational outcomes. Linking human resource management *inputs* to organizational *outcomes*, enables the decision maker to make choices in the context of strategic intent. Within the uniformed services, this context is absent today and discussions tend to focus solely on inputs, such as policies and practices, on an issue-by-issue basis, rather than on how policies and practices can be combined to achieve desired strategic objectives.¹⁰

Second, it was immediately obvious that, in a system as complex as the human resource management system, all desired outcomes can not be attained simultaneously. Understanding the interrelationships influencing these desired outcomes is essential for both revealing and evaluating implicit and explicit trade-offs. Strategy is about making sensible trade-offs among competing resource requirements. Understanding interactions and synergies leads to more effective decisions. The model suggested possible trade-offs. For example, introducing policies and practices that give rise to innovative behavior in an organization focusing on a strategy of military effectiveness tends, *ceteris paribus*, to reduce performance reliability. Although the same levels of innovative behavior found in organizations employing a strategy of innovation can not be achieved without decreased performance reliability, the model suggested changes to strategic choices (and, consequently, to policies and practices) that would provide some increase in innovative behavior without attendant adverse consequences.¹¹

The model then was used to produce several alternative system designs. This was an iterative process; each system design served as a basis for discussion and further refinement. In addition to the speed at which it could produce alternative system

. . . discussions tend to focus solely on inputs, such as policies and practices, on an issue-by-issue basis, rather than on how policies and practices can be combined to achieve desired strategic objectives.

. . . in a system as complex as the human resource management system, all desired outcomes can not be attained simultaneously.

¹⁰ Even in a process as useful as the Unified Legislation and Budgeting process, issues considered by that body, such as the restructuring of the basic pay table as suggested by the 7th Quadrennial Review of Military Compensation (and even discussing this in the context of pay for performance), are examples of this tendency to focus on inputs. See Chapter 9 for a discussion of the pay for performance outcomes that describes a broader context for restructuring the basic pay table.

¹¹ This example is described in more detail in Chapter 9.

The model is transparent enough to articulate clearly not only the results but also the underlying explanation of these results.

The explicit trade-offs required between desired outcomes could only be resolved by selecting different sets of strategic choices.

designs, the model organized the information and knowledge into an explicit framework, permitting the logic of the results to be audited. So, in addition to producing results, the model also provided an explanation for the results. The model is transparent enough to articulate clearly not only the results but also the underlying explanation of these results.

Following the same process outlined above, the model helped develop generic systems, in the context of their applicability to the uniformed services, for the other “pure” strategies (innovation, least cost and quality improvement/customer service). In each of these cases, the analysis produced a set of strategic choices that were then used to develop specific policies and practices. The policies and practices are described in the next chapter.

Comparing Generic Human Resource Management Systems

As the generic systems were developed, it became apparent that *each organizational strategy required a human resource management system specifically designed to attain its desired outcomes*. The explicit trade-offs required between desired outcomes could only be resolved by selecting different sets of strategic choices.

For example, the expert panel identified high levels of “performance reliability” as one of the required organizational outcomes needed to support an organizational strategy of military effectiveness. The panel identified high levels of “responsiveness,” however, as one of the required organizational outcomes needed to support an organizational strategy of innovation.

Figure 17 displays an example of the tension between selected organizational outcomes for the strategies of military effectiveness and innovation. Notice that “reliability” and “responsiveness” are both, in part, functions of “external management,” “self-management” and “skill development.” One of the propositions used in the model asserts that self-management improves responsiveness.¹² Another proposition states that some self-management also improves reliability, but that *excessive* self-management interferes with reliability. Self-management is influenced by the amount of member involvement (a dimension along which a strategic choice is made). The choice to provide high member involvement will generate high levels of responsiveness (a desirable outcome in an organization employing a strategy of innovation), but it also causes a decline in reliability (an undesirable outcome in an organization employing a strategy of military effectiveness). In other words, a difficult strategic choice must be made for each of these organizations along the dimension of member involvement – and this leads to different policies and practices.

¹² The arrows in this figure indicate the direction of causation; the “plus” or “minus” indicates whether the relationship is positive or negative. A combined “plus and minus” indicates that the relationship is positive over part of a range and negative over other parts of the range. In the case at hand, small amounts of external management increase both reliability and responsiveness; however, larger amounts of external management will have a negative effect on responsiveness.

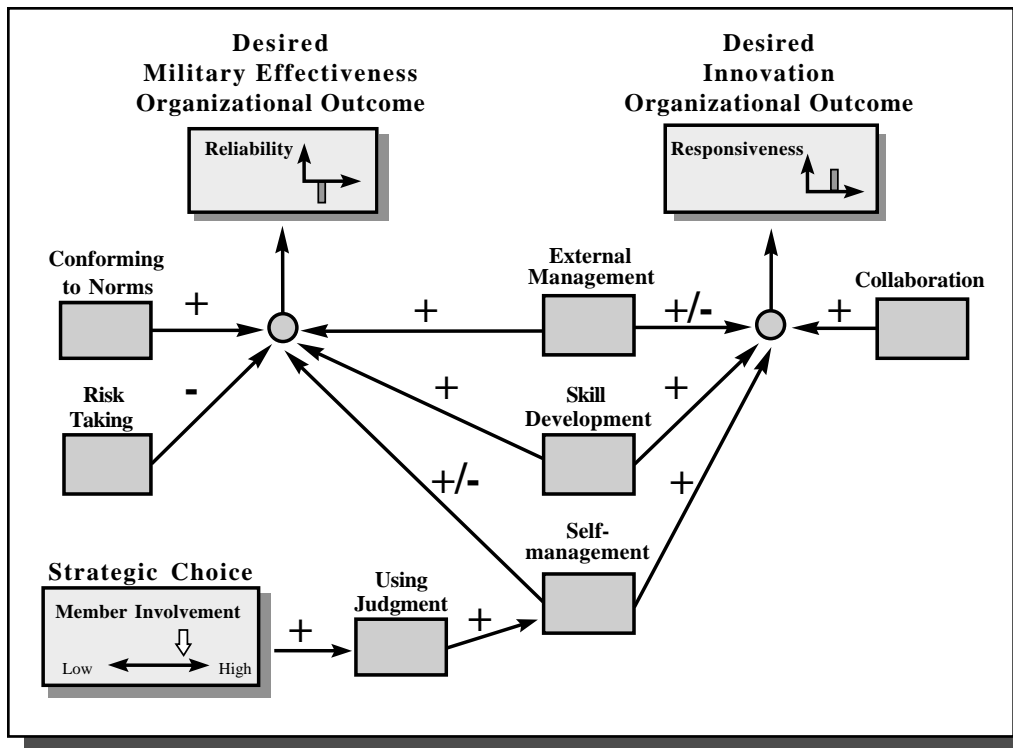


Figure 17 – Model Interactions

Figure 18 compares some of the strategic choices affecting compensation for organizational strategies of military effectiveness and innovation. The bar in each cluster represents the strategic choice made for each strategy along the dimension being considered. For example, for the dimension of pay-for-the-job versus pay-for-skill, an organization employing a strategy of military effectiveness would provide a mix of the two types of pay; an organization employing a strategy of innovation would provide a much greater emphasis on pay-for-skill. In addition, a human resource management system tailored to a strategy of *military effectiveness* would ultimately support “warfighting” situations in which members with a mix of skills and ranks work together toward a common goal, in a hazardous environment, dependent on each other for their lives, and where the concept of “selfless service” motivates the kinds of behaviors needed more than compensation. Therefore, pay tends to be fixed rather than variable; levels of pay are set somewhat lower than market level and offset by relatively high benefit levels and nonmonetary rewards; it stresses internal rather than external equity, so that service members are paid comparably to each other rather than to their private-sector counterparts (in part, because there is no private sector counterpart); and benefit levels are high also to ensure that the service member does not have the distraction of worrying about the welfare of his or her family. In contrast, a human resource management system tailored to a strategy of *innovation* would encourage risk-taking, experimentation, and a focus as much on process as on results. For these behaviors, variable pay is an appropriate motivator, particularly if determined by group performance. External equity is important because individuals with highly transferable skills tend to compare themselves with non-military counterparts. Additionally,

higher levels of pay are balanced by lower levels of benefits that are also more flexible in order to satisfy individual preferences. Figure 19 displays the results for the organizational outcomes of reliability and responsiveness.¹³

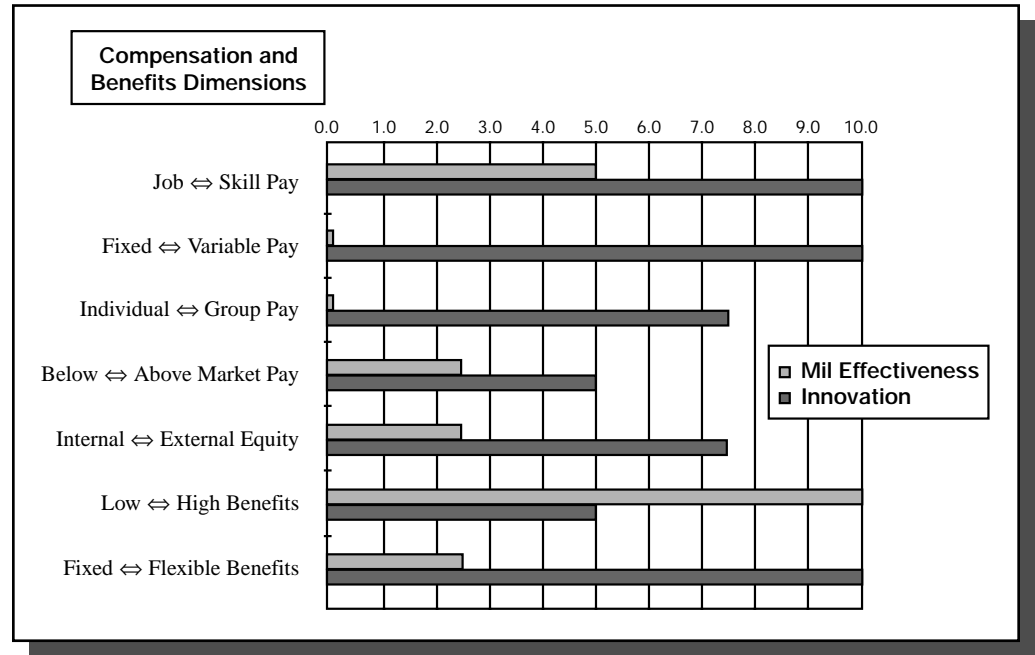


Figure 18 – Strategic Choice Comparisons

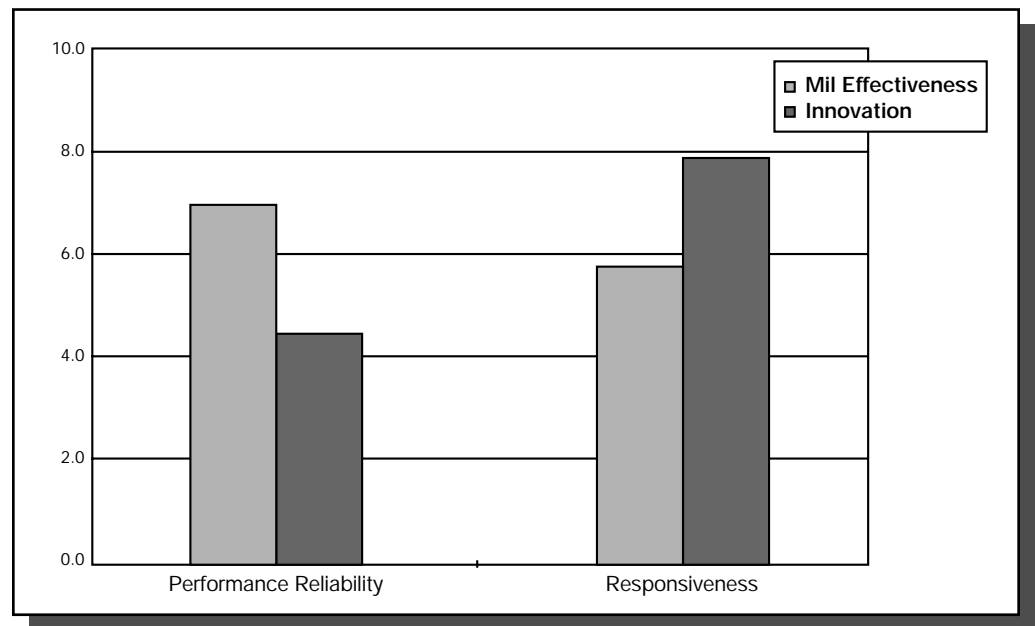


Figure 19 – Organizational Outcomes

¹³ Because the qualitative nature of the information and knowledge represented in the model, the results are also qualitative. The numeric scale used for the results is ordinal – in other words, values are used only as a means of arranging the *qualitative* results in order, from smallest to the largest. Only comparisons of “greater,” “less” or “equal” between values are valid.

Modifying Generic Human Resource Management Systems

Generic human resource management systems designed to achieve “pure” organizational strategies serve as touchstones for designing customized human resource management systems. Organizations, depending on their environment, tasks, resources etc., may not choose to utilize a pure strategy but can benefit from using these touchstones as a starting point. As an example, strategic choices designed to support a “pure” organizational strategy of military effectiveness were modified to meet the needs of Force XXI.

After reviewing Force XXI requirements (particularly the behaviors needed), the expert panel defined the organizational outcomes that the human resource management system should produce. Starting from the baselines of a “pure” strategy of military effectiveness, the panel chose to emphasize outcomes of creativity and responsiveness. This was because the Force XXI literature emphasizes the need for innovative behavior along with the traditional behaviors needed for military operations. Figure 20 compares some of the strategic choices for compensation made for a generic human resource management system designed to support a “pure” military effectiveness strategy and the strategic choices made for the human resource management system designed to support Force XXI outcomes.

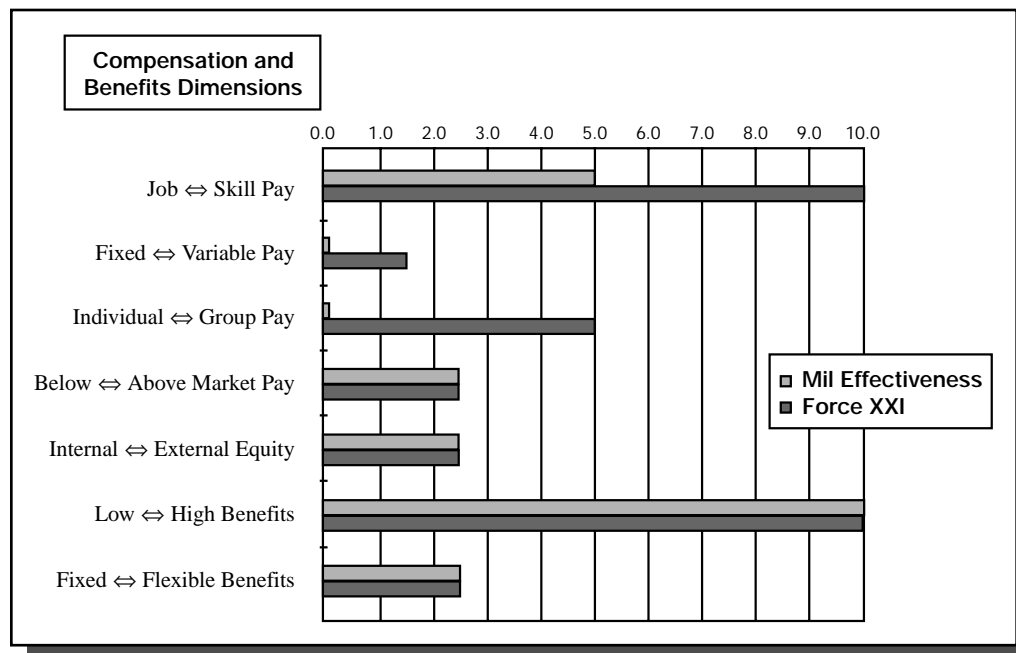


Figure 20 – Strategic Choice Comparison

Figure 21 compares the results in terms of three of the organizational outcomes: responsiveness, creativity and administration costs. Notice that the human resource management system for Force XXI generates higher levels of creativity and responsiveness compared to the generic human resource management system designed to support a “pure” organizational strategy of military effectiveness. The trade-off would be an associated increase in administration costs.

Organizations, depending on their environment, tasks, resources etc., may not choose to utilize a pure strategy but can benefit from using these touchstones as a starting point.

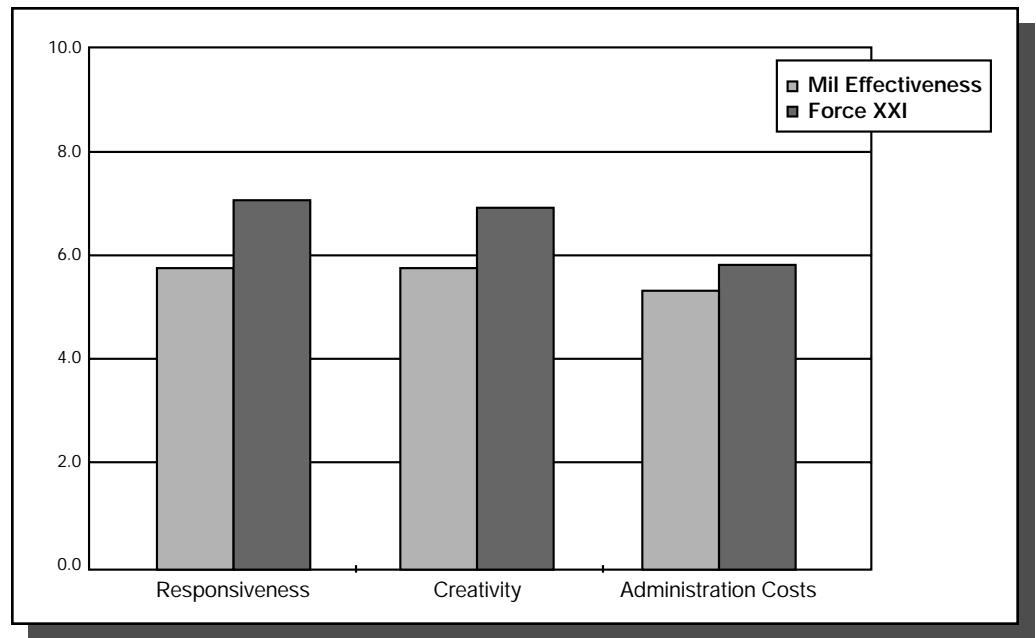


Figure 21 – Organizational Outcomes

The key is the organization's ability to translate its strategic intent into a set of desired organizational behaviors and outcomes . . .

Creating New Human Resource Management Systems

Just as the model was used to produce the generic human resource management systems, it can also help design new systems to support desired organizational outcomes that flow from an organization's purpose, mission, vision, strategy and assumptions about the future environment in which it will operate. The key is the organization's ability to translate its strategic intent into a set of desired organizational behaviors and outcomes represented in the model (or that can be incorporated into the model).

Fortunately, the model's graphical interface accommodates a high degree of flexibility. Several special versions of the basic model were easily created. In some cases, these customized models specified different outputs/outcomes, not in the basic model, designed to address organization-unique questions or issues. In other cases, the relationships in the basic model were modified to reflect changes in the environment that might reasonably be expected to alter the effectiveness of the human resource management system.

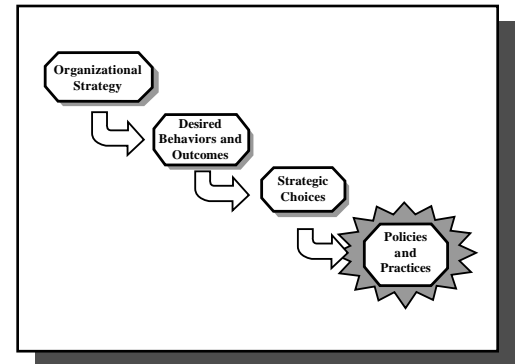
Overall, the model is a responsive and versatile tool for the design and evaluation of human resource management systems.

CHAPTER 7

GENERIC HUMAN RESOURCE MANAGEMENT SYSTEM DESCRIPTIONS

Introduction

This chapter completes the application of the process begun in Chapter 5. It illustrates how an organization can implement its strategic choices through policies and practices. Policies and practices are the set of specific direction, guidance, rules and procedures that govern the operation of the elements of the human resource management system; collectively, they comprise the human resource management system.



These strategies are best associated with the subunit level . . . ; it is at this level policies and practices can be most directly related to the organization's specific mission.

Four “generic” human resource management systems are designed to correspond to each of the organizational strategies: innovation, quality improvement/customer service, least cost, and military effectiveness.¹ These strategies are best associated with the subunit level (for example, major commands, functional communities, or other relatively independent communities, such as the medical or acquisition community); it is at this level policies and practices can be most directly related to the organization’s specific mission.

The generic human resource management systems described here are a starting point for the tailored flexibility discussion in the next chapter.

Descriptions of Generic Systems

This chapter draws on trends and best practices in other organizations and on the policies and practices associated with organizations successfully using specific strategies. In large part, however, this is a subjective task that benefits from the informed judgments of human resource management professionals (bringing a breadth and depth of knowledge of the policies and practices) working closely with the leadership

¹ Although five organizational strategies were considered, the strategy of customer service and of quality improvement resulted in behaviors and strategic choices so similar a single generic human resource management system was designed to accomplish both. As noted in other parts of the report, however, when a specific environment, task, set of resources, etc., is taken into account in designing a human resource management system for a particular organization, the specific behaviors required may result in different sets of policies and practices for organizations using these different strategies.

of the organization (bringing an intimate knowledge of the desired organizational outcomes). To test that concept, a panel consisting of representatives of the Hay Group and the uniformed services developed the descriptions below.²

Several conclusions emerged from researching each organizational strategy. First, no organization employs one of these “generic” organizational strategies in its pure form. Although an organization may profess to use such a strategy, its actual strategy³ invariably includes some aspects of others. Second, each organizational strategy appears to have potential value for subunits within the uniformed services. Third, different organizational strategies “fit” some organizations within the uniformed services better than others; least cost seemed to fit the smallest number of organizations because few parts of the uniformed services meet the unique characteristics of organizations in which least cost would be an appropriate strategy.⁴

A conclusion also emerged from considering all four organizational strategies: Different strategies require different behaviors, which require different human resource management systems. As a corollary to this observation, developing a human resource management system composed of a set of policies and practices that motivate the behaviors desired for one of the organizational strategies will not motivate the behaviors desired for the other. As a second corollary, designing a human resource management system based on policies and practices unrelated to either organizational strategy will create a set of behaviors unrelated to either strategy.

In the four sections that follow, each of the four human resource management systems is presented in a common format. Each description begins with a general discussion of the most relevant features of organizations and the human resource management functions that employ the strategy. The description continues with private sector examples and potential uniformed service applications. Finally, policies and practices to support each organizational strategy are delineated. The discussion is organized around the four human resource management functions of compensation and benefits, staffing (selection, promotion and placement), performance management and training and development.

The descriptions of the policies and practices are couched in terms of how they would be implemented in organizations that are part of the uniformed services.

Organizational Strategy of Innovation

An organization following a strategy of innovation can take either of two different approaches to managing human resources. The literature refers to both of these approaches. The approach selected depends on the goals and objectives of the

. . . different organizational strategies “fit” some organizations within the uniformed services better than others . . .

Different strategies require different behaviors, which require different human resource management systems.

² The Hay Group contributed very substantially to the 8th Quadrennial Review of Military Compensation’s understanding of policies and practices and to the development of this chapter.

³ In addition, the overall strategy of a subunit may be broader than the organizational strategy suggested by the human resource management function. This overall strategy may have behavioral implications, beyond those associated with the organizational strategy, that need to be taken into account in the design of the human resource management system.

⁴ Embedded in the organizational strategy of least cost is a philosophy that treats human resources as interchangeable commodities – a philosophy at odds with the culture of the uniformed services that values individual effort, achievement and selfless service.

organization. One type of organization that might adopt a strategy of innovation is a laboratory conducting fundamental research. In such an organization, members are committed to long-term research efforts that have few time pressures. Although such organizations exist, they are relatively rare.

The most common type of innovation-based organization is one devoted to product development. It is this type of organization that this section focuses on. Such an organization seeks to be the first to bring new products to market to gain a competitive advantage. The environment for these organizations is very fast-paced. A product is not truly innovative unless it is first to market (being first includes getting a new version of older products out quickly). Advantage accrues to an organization (for example, profit in the private sector) when a given product is the only one available. This advantage in the uniformed services could manifest itself as an advanced technology for which adversaries lack a countermeasure.

In this type of organization, each product development team has a clearly defined task – for example, a specific product that must be produced by a certain time. Within each team, the emphasis is on roles rather than jobs. Team members have specific responsibilities but are expected to take up a variety of duties and accomplish them well. Each role may require a broad range of technical skills and behavioral competencies. Team members are viewed as valued assets that are essential to achieving the goal.

The desired organizational outcomes associated with this strategy include shaping the environment to the needs of the organization, real-time response to environmental change (when shaping fails), and enhanced organizational performance through efficient application of technology and human capital. Organizational outputs⁵ that contribute to these outcomes include “centers of excellence” sought out by other agencies and organizations or the increased presence of recognized experts in the uniformed services.

Private Sector Examples

Examples of private sector organizations using a strategy of innovation include, Sony, Motorola, PepsiCo and Chrysler (primarily during the development of the Neon). These companies seek to gain a competitive advantage by bringing new products to market first.

Potential DoD Applications

In the uniformed services, a variety of organizations might choose innovation as an appropriate organizational strategy. Research labs, for example, would be candidates.

⁵ This report distinguishes between “outcomes” and “outputs.” “Outcomes” are those major *end* results the organization is designed to produce that have value in and of themselves to the “customer” of the organization. “Outputs” are *intermediate* results the organization is designed to produce that contribute to organizational outcomes in identifiable ways, but which have no value in and of themselves to the “customers” of the organization. In this context, “a trained and ready force” would be an outcome; “retention” would be an output that contributes to the outcome. The distinction between outcomes and outputs has application in such arenas as the Government Performance and Results Act, discussed in other parts of the report.

Other potential users include the program management side of the acquisition community, organizations devoted to doctrine development, higher-level service schools, the information management community and headquarters at all levels.

Policies and Practices

In an organization using a strategy of innovation, work is accomplished through a combination of teams and individuals, with teams being the fundamental units. Work is defined around holistic “roles” rather than simple, clearly defined jobs. This type of organization has a flat structure (the flattest of the strategies discussed) that allows flexibility and helps to reinforce the culture of collaboration, participation and open communications.

Compensation

The objective of compensation in an organization adopting a strategy of innovation is to ensure that the organization has available the talent needed to bring new products to market within cost, schedule and productivity targets. This organization treats its members as assets and is willing to generously reward them for significant contributions. Compensation is just one tool used in attracting and retaining highly qualified performers.⁶

The key parameters of the reward system are work definition, base pay structure, incentive programs and benefit programs.

Work Definition

In an organization employing a strategy of innovation, value of work is defined in terms of the organization’s mission. Three main areas are considered: (1) impact on the organization – the amount of resources (measured, for example, in terms of dollars or manhours) devoted to the project, the complexity of the causal linkage needed to achieve results and how controllable the results are; (2) control over resources – ensuring the team has enough control over resources necessary to achieve a successful outcome; and (3) necessary competencies – defining those on which success depends.

Base Pay Structure

Because this organization may often have to recruit externally, it will pay at least the going market rate to attract and retain the highly qualified personnel required. The pay structure provides enough flexibility to respond quickly to the marketplace. In this environment, external competitiveness is significantly more important than internal equity.

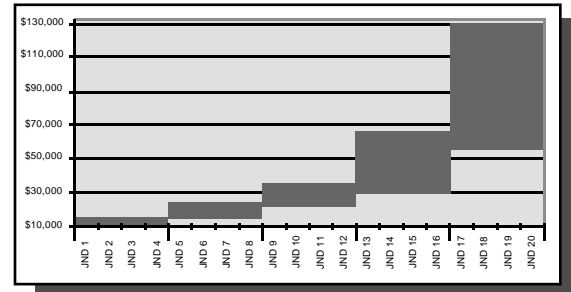
Given the emphasis on roles rather than jobs, there will be only a few broad grades allowing for flexibility and minimizing bureaucracy. For example, each job grade will probably span three to four just noticeable differences (JNDs) in width.

This organization treats its members as assets and is willing to generously reward them for significant contributions.

⁶ Private sector experience indicates that various other factors contribute to reasons talented people are attracted to innovative organizations. These reasons include the ability to work on something interesting, the reputation of the organization, the opportunity for collaboration and teamwork, etc.

(A just noticeable difference is the smallest difference in content that individuals can reliably sense. Just noticeable differences typically fall in the 15 percent range and are expressed in terms of ratios rather than absolute differences). This organization might employ broadbanding, with no more than five to seven bands for the entire enterprise.

The pay grades will be very wide to complement the grade structure. The top of the first third of the pay band will be set at the going rate in the market. At the lower levels (staff and supervisors), pay ranges will be about 50 percent (namely, maximum over minimum – 100 percent = 50 percent). The width of pay ranges increases for the upper bands. For senior leadership, pay ranges will typically be 100 percent to 150 percent to provide opportunity for superior performers to continue to progress in pay without a promotion. Pay increases will be based primarily on acquisition of competencies; specific outcomes will be a secondary consideration.



Incentive Programs

Incentive programs are widely applied to reinforce the link between organizational success and rewards. Incentives tend to be longer-term, depending on the project/product cycle. Incentive plan payouts are tied to project outcomes such as schedule, cost and productivity of the team in the short term and project success in the long term. Short-term payouts focus on the progress made toward the objective; whereas long-term payouts focus on attainment of the actual goal, and possibly the product's success in the marketplace. Typically 60 to 80 percent of staff are eligible for short-term cash incentives. Payout targets will range from 30 to 40 percent of base pay at the lower levels of the organization to 40 to 60 percent at the higher levels. On average, about 40 to 60 percent of those eligible earn cash incentive payouts. There is a real element of risk in these programs; they are not a guaranteed payout. The incentive programs apply to those members and teams involved directly in the innovative processes.

If possible, higher-level staff should be eligible for rewards linked to the long-term success of the organization (such as, in the private sector, stock options and phantom stock). Additional rewards such as spot cash awards for specific extraordinary behaviors or performance and noncash rewards such as computers, cellular phones and professional development meetings/conferences will also be featured.

Benefit Programs

Benefit programs emphasize flexibility and choice. Retirement benefits are portable and provided even to relatively short-service personnel. Health benefits are flexible, allowing the member to tailor them to individual needs. Medium- to high-cost sharing will be the standard. A minimal level of life insurance is provided with flexible options for the member to purchase additional coverage. No retiree health and life

insurance is provided. Minimal to medium short- and long-term disability insurance coverage is provided. Relatively low levels of vacation days will be allowed with the higher pay bands receiving more days. A medium number of holidays will be provided including floating holidays to allow the member flexibility.

Senior leader benefits will be relatively high and include, in the private sector, perquisites such as company car, financial planning, club memberships, and spouse accompaniment on business trips.

Staffing

The staffing function is particularly important in an organization adopting a strategy of innovation. The overall objective is to fill vacancies with *highly* qualified personnel. It is not sufficient to find a candidate who can merely do the job. The goal is to find the *best* candidate for the role. In achieving this overall objective, staffing must accomplish a number of sub-objectives. These sub-objectives typically include:

- Helping identify the personnel requirements or needs (numbers, skills and behavior competencies) based on team objectives.
- Recruiting members to fill those needs.
- Developing and administering a system that ensures members selected to fill roles meet requirements.

The key aspects of staffing in meeting these objectives are the human resource management department's partnering with the team to understand the requirements of the roles and a sophisticated selection systems to screen members for those requirements.

The selection process starts with a team need. This need may result from the creation of a new product team or a new role within a team. Staffing meets that need by selecting the candidate that best fits the role. Because the goal is to find the best possible match, staffing recruits from both internal and external candidates. The final selection emphasizes the skills and behavioral competencies required to perform in the target role. The rapid pace of technological change necessitates frequent selection of external candidates to obtain the skills and competencies required for new roles.

The first step in staffing is to define the need – the human resource management department works closely with the project manager to identify the skills and behavioral competencies required for the new role(s). For example, skill requirements might include expertise in aerodynamics, composites, engines, rotors, electronics, service logistics or human factors. Behavioral competencies might include initiative, self-confidence, achievement orientation, impact and influence, and conceptual thinking. Currently in the uniformed services, the skill requirements are identified and met quite well; the behavioral competencies are not. The human resource management department and the team leader would carefully prepare operational definitions of the precise factors that will be needed for each role. These definitions emphasize what is needed for outstanding rather than “acceptable” performance, and become the basis for searching and selecting candidates for the team roles.

The staffing function is particularly important in an organization adopting a strategy of innovation.

The overall objective of performance management in this organization is to ensure successful completion of the project.

Selecting the right person for the role consists of four major phases. First, the human resource management department seeks out potential candidates to volunteer for the program and individuals of particular expertise who might be considered for assignment. This function is essentially one of advertising, which includes a description of the team effort (for example, outcomes and timelines) as well as the role requirements. Candidates would be solicited from many sources including the uniformed services, DoD laboratories, private industry and academia. Again, the emphasis is on finding the best people to fill the roles regardless of their source.

Next, the human resource management department and the team leader review the technical requirements (for example, education and experience) of the candidates. The human resource management department collects and maintains information and screens candidates; the team leader conducts a thorough assessment of the technical skills. Information that might be included in this analysis includes educational background, previous work experience, recommendations and publications, as well as technical interviews. The team leader is key in this phase because he or she has the technical depth to know what to look for.

Once technically qualified candidates are identified, the human resource management department evaluates each candidate's match to the role in terms of desired behavioral characteristics and competencies. This phase of the selection employs sophisticated measurement methods (for example, projective tests, structured behavioral interviews, assessment centers or simulations). The human resource management department has the primary responsibility during this phase of the staffing effort because such measurement methods require specialized skills they would possess.

The human resource management department's behavioral review identifies which of the technically qualified candidates have the behavioral competencies to work with the team. The team leader makes the final selection because he or she has ultimate team responsibility. The human resource management department provides input to this decision as needed (for example, suggested pay ranges based upon the individual's background and the marketplace).

Performance Management

The overall objective of performance management in this organization is to ensure successful completion of the project. In achieving this overall objective, performance management must accomplish a number of sub-objectives:

- Reinforce the mission of the team.
- Encourage teamwork and cooperation.
- Identify needs or opportunities for team member development.
- Provide data and other information for internal recruiting.

The appraisals vary in format from simple to complex. The factors that make up the appraisals are often customized for each team and can change from year to year. Because team members are viewed as highly valued assets, this organization emphasizes performance management and often devotes substantial resources (particularly, time) to it.

Appraisals are conducted for both teams and individuals. Team assessments are most often completed by the team's sponsor. For interim assessments, team evaluations focus on the team's progress. The final evaluation of the team's performance will be an assessment of the project's impact on the organization.

Individual assessments are conducted by the team members. Both team members and the team leader are assessed (the team leader assessment typically includes more factors than the team member assessments). Most of these organizations employ a multi-source approach in conducting these assessments. In such an approach, members are assessed by their peers and subordinates as well as their supervisor (namely, the team leader). This approach provides a more complete picture of a member's performance than does a simple supervisory appraisal. The team member and team leader assessments focus on skills and behavioral competencies. Multi-source assessments are particularly useful in measuring behaviors important to teamwork and cooperation (for example, listening and responding, initiative and interpersonal awareness) that are difficult to measure in traditional performance appraisals.

Training and Development

Organizations adopting an innovation strategy place a major emphasis on the long-term development of their members. In fact, more than under any other organizational strategy, this organization thinks of people as an asset – one reason why this strategy is particularly compatible with the culture of the uniformed services. From this perspective, there are three major objectives:

- The continued development of all members, but with special attention to the professional staff and those who are considered “knowledge workers” (members who add value to the organization through their specialized expertise, knowledge or skill).
- The encouragement and support of members as they build a broad “portfolio of skills.” Members are expected to work in a variety of roles, learn new skills and move across subunits and functions as they progress in their careers. The organization's objective is to remove barriers to this movement.
- The development of multi-skilled members with diverse experience. Diversity of experience, skill and knowledge is the foundation for creativity. The organization's objective is to have both depth and breadth of knowledge and experience represented among members.

The objective is to train to build long-term knowledge and experience; thus, training is provided to all members. Although provided by the organization, the responsibility to initiate training falls to the member. Members are given multiple opportunities throughout their career to self-assess and to seek multi-source appraisals. These assessments indicate areas of strength and developmental need and guide the member in selecting training and development opportunities. Team leaders also provide feedback to members on their performance and often function as formal or informal coaches, advising them on career options and development opportunities.

Organizations adopting an innovation strategy place a major emphasis on the long-term development of their members.

Training topics include management and team skills, self-development, leadership skills and other requirements for fulfilling broad, varying roles in the organization. Specific skill building may often be outsourced. Because quality is important, the human resource management department subsidizes external education costs for degree programs that contribute to the members' long-term career goals. For high-potential leaders or other senior staff members, the organization will develop a curriculum of education and experience specifically designed to prepare them for future roles.

Delivery of training and development is unrestricted. The organization makes use of whatever delivery system and methodology is effective. For example, the MITRE Institute maintains a multi-media educational resource/career planning center to support employees throughout their careers. It includes videos, computer-based training, books and periodicals, and is staffed by career development specialists to help counsel employees. Other organizations, such as Reynolds Metals and the Richmond Forum, belong to one or more consortia that sponsor internationally recognized speakers at roundtable presentations or that may even sponsor joint appointments to facilitate knowledge sharing.

ARA Services and Wharton School of the University of Pennsylvania have a somewhat more formalized arrangement in which Wharton professors have designed a curriculum specifically for ARA to reflect the organization's long-term strategy and train new executives in the skills and knowledge anticipated to be needed for future growth. Similarly, but at an earlier stage of their careers, upper-level managers from PPG Industries, identified as "high potential" during the annual succession planning activity, are enrolled in a two-year program to encourage innovative problem solving and cross-subunit interchange. The class meets quarterly for an entire week off-site and analyzes organizational problems from each subunit and participates in intensive self-assessment and development activities. Of the first class of 15, all but one had been promoted to positions outside their original subunit by the end of the second year.

The most extensive programs are found in the large high technology firms such as Motorola and Intel. Motorola maintains a university that trains both individuals and work teams in a wide array of technical, business and interpersonal skills. Intel maintains five separate career centers where workers constantly assess their interests, skills and abilities and retrain in those areas they choose. This investment is necessary because Intel believes the radical changes in technology in their industry require a new workforce every 2½ years. Intel employees switch and cross over careers constantly. They are also granted a one year sabbatical every seven years. Intel estimates that since 1989, it has displaced nearly 7,000 workers, but 90 percent of these have been redeployed within Intel.

Summary

An organization that adopts a strategy of innovation is seeking competitive advantage by being first to market. If properly structured, the human resource management function can help the organization meet its innovation goals by:

- Finding the members best able to accomplish a given job or role.
- Motivating members to accomplish organizational goals.
- Providing the best talent.
- Ensuring the long-term development of members.

The human resource management function can help an organization using a strategy of innovation be first to market by ensuring its ability to attract, retain, and motivate the most highly qualified and talented personnel.

Organizational Strategy of Quality Improvement/Customer Service

Work in an organization using a strategy of quality improvement/customer service is designed around processes for meeting obligations to customers (both internal and external) and continually improving quality. As such, a team approach to work plays a major part in the culture. Planning, execution and control are integrated as close to the customer as possible. Suppliers, the teams that carry out the processes and customers are linked throughout the decision-making process.⁷

The priorities of this organization put customer satisfaction first, followed by reliability, technology and, finally, flexibility. Within this context the mission is to *exceed* customer requirements with a focus on the current situation (namely, making it better as soon as possible). Customers can be internal as well as external and are often viewed as a chain or web. Measurement is a key aspect of this culture because neither quality nor customer satisfaction can be improved unless it is measured. This measurement needs to consider both processes and outputs if the strategy is to be effective.

In these organizations, work is organized around roles rather than jobs. Individuals have specific responsibilities, but are expected to take up a variety of duties and accomplish them well. Each role may require a broad range of technical skills and behavioral competencies. Team members are valued assets that are essential to attaining the goal. Successful members in these organizations value service and want to be affiliated with a group or team. These organizations tend to view their processes as unique and so desire to maintain high retention and loyalty. Treating members with similar roles in the same way is an important ingredient in maintaining that loyalty.

The desired organizational outcomes associated with this organizational strategy include responsive support services, particularly to operational units; elimination of unnecessary obstacles and more effective organizational performance; better provision of services to other governmental entities; and increased confidence in the reliability of support units. Organizational outputs that contribute to these outcomes include

The human resource management function can help an organization using a strategy of innovation be first to market by ensuring its ability to attract, retain, and motivate the most highly qualified and talented personnel.

⁷ Organizations adopting this strategy may differ in what they label their approach. Some organizations call it “quality improvement” and others use the term “customer service.” The selection of the name reflects the organization’s emphasis but generally does not affect the human resource management function’s structures or procedures.

increasing customer satisfaction, continuous improvement in quality measures, and closer integration of the activities of providers and customers.

Private Sector Examples

Examples of private sector organizations using a strategy of quality improvement/customer service include CSX, GE, GTE, and Hallmark Cards. In addition, the United States Postal Service (USPS) is an example of a public sector organization adopting this strategy. These organizations seek to gain competitive advantage by meeting or exceeding customer requirements.

Potential DoD Applications

Quality improvement/customer service as an organizational strategy might be appropriate for a variety of organizations or functions in the uniformed services. Maintenance, finance, logistics, the contracting side of acquisition, intelligence and medical communities are potential candidates, as are the education and training system and organizations operating national command and control systems.

Policies and Practices

In an organization using a strategy of quality improvement/customer service, work is accomplished through a combination of teams and members. Work is defined around holistic roles rather than simple, clearly defined jobs. This type of organization tends to have a relatively flat structure, which helps to reinforce the culture of collaboration, open communications, and accountability for resolving problems and issues.

Compensation

The objective of compensation in an organization adopting a strategy of quality improvement/customer service is to reward valuable human assets. To effectively do this, the goal is to attract and retain members who focus on service, affiliation, influence and tenacity. The organization will reward groups that make progress in satisfying their customers.

The key parameters used to define and describe the reward system are work definition, base pay structure, incentive programs, and benefit programs.

Work Definition

Under a quality improvement/customer service strategy, most work is done as a team and the work is defined around roles rather than jobs. Three main areas are considered in determining the value of work: (1) process capability – such things as the complexity of the process, the diversity or extent of coordination required, and how central the process is to the organization; (2) improvement opportunity – the importance of the process and the extent to which improvement is within the power of specific organization members and (3) scope – empowerment, role impact and the importance of the process.

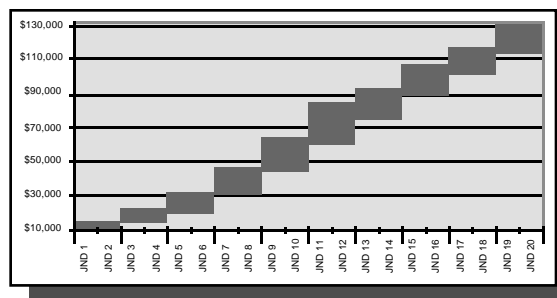
The objective of compensation in an organization adopting a strategy of quality improvement/customer service . . . is to attract and retain members who focus on service, affiliation, influence and tenacity.

Base Pay Structure

These organizations hire in at well below the going market rate. The idea is to pay well below the average at the start and then reward growth.⁸ Members progress in relation to their ability to contribute to process improvement. Low emphasis is placed on market rates because these organizations focus on learning unique processes. The top of the middle third of the pay band will be set at the going rate in the market. The pay structure will provide the flexibility and opportunity to reward growth and contribution to process enhancement.

Given the relative emphasis on roles rather than jobs there will be a moderate number of somewhat broad grades. This will allow a balance of flexibility with internal equity. Each grade will probably span one and a half to two and a half just noticeable differences in width.⁹

Pay ranges will be relatively wide at the lower levels – for example, 55 to 70 percent – to provide for progress after entry at a low level. Ranges will be relatively narrow at the higher levels – for example, 20 to 30 percent – to preserve internal equity. This means there is relatively little opportunity for growth in the “same role” at the higher levels.



Pay increases will be based on a combination of market movement and process capability or contribution. Team results also play a role in determining pay increases.

Incentive Programs

Incentive programs reinforce the link to customer service and quality. Virtually all members are eligible for incentive programs. Incentives tend to be short-term (for example, quarterly). Payouts are tied to progress in customer service and quality measures.

In the private sector, higher-level staff are also usually eligible for long-term equity-related incentives such as stock options. Such a plan aligns their rewards with the rewards to the firm and encourages a longer-term perspective.

In the private sector, additional rewards such as spot cash awards for specific extraordinary behaviors or performance and noncash rewards (such as plaques, tickets to dinner and gifts under \$50) will also play a prominent role for both individuals and teams. Again, the use of some of these methods might be inappropriate in the military, but the need for on-the-spot recognition is not. Non-cash recognition, extra leave and preference in shift assignments are some methods worth considering.

⁸ Obviously there will be exceptions, specifically for recruiting individuals with extremely specialized skills.

⁹ Recall: A just noticeable difference is the smallest difference in content that individuals can reliably sense. Just noticeable differences are typically in the 15 percent range and expressed in terms of ratios rather than absolute differences.

The overall objective of staffing is to fill role requirements with qualified members.

Benefit Programs

Benefit programs will be fairly traditional and rigid. Uniform health benefits will be provided with limited flexibility. Low to moderate cost sharing will be the standard. A moderate level of life insurance is provided with options to purchase additional coverage. In the private sector, the retirement benefit will emphasize group success using such vehicles as profit-sharing. The decision on providing retiree health and life insurance varies widely from organization to organization. A medium level of short- and long-term disability coverage is provided. A moderate number of vacation days will be allowed; this number will increase with length of service. A relatively high number of fixed holidays will be provided. Senior leader benefits are higher than benefits for lower-level members. For example, higher-level staff will receive moderate supplements to their retirement. However, perquisites will be minimal in keeping with the egalitarian team culture. This approach to benefits is fairly consistent with the current system used in the uniformed services.

Staffing

The overall objective of staffing is to fill role requirements with qualified members. It is not important to find the absolute best person for the role. These organizations emphasize training over staffing. Therefore, less-qualified members can be selected for roles that are expected to require continuous training anyway. Sub-objectives typically include:

- Helping to identify the personnel requirements or needs (numbers, skills and behavior competencies) based upon process objectives.
- Recruiting members to fill those needs.

The key aspects of staffing in meeting these objectives are the human resource management department's understanding of the organization's unique approach and leadership confidence in the human resource management function's capability to find trainable personnel to fill target roles.

The selection process is informal. Selection is focused internally; selection will be from the outside only if no current member is qualified.

The selection system will consider members' technical skills and basic background (for example, educational level or past experience). The system assumes that other key qualifications (for example, customer service orientation) can be trained as part of the job. Members are encouraged to develop and maintain a portfolio of different skills so there will always be a ready supply of members as role vacancies arise.

A staffing action is initiated when the supervisor, team leader or human resource leader identifies the need for a new role and the characteristics (for example, education, experience and perhaps competencies) required to successfully fill that role. The human resource management department identifies and screens possible members and provides a short list to the team leader or supervisor who makes the final selection.

Performance Management

The objective of performance management is to help ensure high quality and customer satisfaction. Sub-objectives include:

- Encourage teamwork and cooperation.
- Link key quality variables (for example, customer satisfaction) to member performance.
- Identify needs or opportunities for team or member development.

In addition to traditional output (for example, numbers of tasks completed) and process measures (for example, personnel assessments), quality improvement/customer service organizations include customer feedback as an important part of their performance management systems. Feedback comes from both internal and external customers. The feedback is collected through a number of methods, including formal recommendations and complaints, feedback forms (short surveys that go to every customer) and detailed surveys administered to targeted samples.

Because performance feedback is ongoing throughout the year, the primary purpose of summary assessments is to document member performance for the period. Quality improvement/customer service organizations emphasize measurement and will conduct these summary assessments frequently (often, quarterly). These performance summaries serve two major functions: They can be used as links to the compensation system (for example, as one of the bases for incentive payouts) and to the training and development system (for example, as evidence of developmental needs or opportunities).

Appraisals vary in format from simple to complex. The factors that make up the assessments reflect the particular needs of the processes being performed by the team or individual and can include both outputs and behaviors. Because members are viewed as assets and measurement is key to the success of the strategy, these organizations emphasize performance management and devote substantial resources to it.

Evaluations are conducted for both teams and individuals. Team assessments are most often completed by the team's sponsor. Individual assessments are conducted by the team members when work is accomplished in teams or by a supervisor when work is performed individually. In the case of teams, both team members and the team leader are assessed (the team leader assessment typically includes more factors than the team member assessments). These organizations employ multi-source assessments. In such an approach, members are assessed by their peers and subordinates as well as their supervisor (for example, team leader). This multi-source approach to assessments provides a more complete picture of a member's performance than does a simple supervisory appraisal. The team member and team leader assessments focus on skills and behavioral competencies. Multi-source assessments are particularly useful in measuring behaviors important to teamwork and cooperation (for example, listening and responding, initiative, interpersonal awareness) that are difficult to measure in traditional performance appraisals.

The objective of performance management is to help ensure high quality and customer satisfaction.

Training and development practices address both the content of the jobs and the processes used to reengineer them and to work in collaboration with customers.

Training is so important in this setting that it is quite easy to initiate and is available from a number of sources . . .

Training and Development

Training and development practices address both the content of the jobs and the processes used to reengineer them and to work in collaboration with customers. Customers in this context applies to both external customers of the organization, internal customers and often vendors. Partnership is important in this setting and the organization considers it legitimate to train members in whatever it takes to make them better partners.

The primary characteristics of training and development include:

- Training for all members. Training is usually initiated at orientation (either to a new job or a new project). Some formal classes may be standard for all new entrants, such as courses in the quality philosophy, the tools used to reengineer processes and the interpersonal tools to ensure feedback and collaborative relationships. Training also occurs anytime there is a problem that calls for new skills. This is often provided on-site, to work teams, and clearly focused on the skills needed to solve a specific work problem.
- Training can be initiated by a team sponsor (these organizations often de-emphasize traditional management roles), the team itself, or the member, depending on who recognizes the need. Training is often solicited from headquarters or subunit human resources management department, but there is a minimum of bureaucracy or record keeping. Training is so important in this setting that it is quite easy to initiate and is available from a number of sources – many of which are internal to the organization.
- The emphasis is on learning and applying skills to current work problems to improve processes. The range of training available is quite broad but is always directly relevant to the organizational problems at hand. In fact, there is pride in providing training “just-in-time” to solve a problem or significantly improve a process.

Training content broadly falls into one of three categories. These include technical skills, interpersonal skills and work process reengineering skills. The technical skills cover the actual knowledge and abilities needed to complete the tasks assigned.

The interpersonal skills cover those needed to promote strong collaborative relationships with internal and external customers. Topics such as giving and soliciting feedback, team leadership, meeting facilitation, conflict resolution, negotiation, etc., are all included. These interpersonal skills also serve to carry much of the unwritten rules of the culture. How members behave toward each other is often a product of this training curriculum.

Finally, training is also provided in work process reengineering skills to give work teams an understanding of the philosophy behind quality and the tools to enable them to reengineer processes on the spot. Courses on decision making tools, flow charting, work process analysis, etc., are examples of this. The United States Postal Service has made extensive use of this content and designed and delivered a “Quality First” training initiative throughout the organization.

Training delivery tends to be largely conducted on site and close to the job to facilitate transfer of learning. Because the demand for training is so high in these organizations, many work with training vendors to have members certified to deliver vendor training (“train-the-trainer”). However, rather than limiting trainers to the human resource management department, line supervisors and members are frequently used as certified trainers. This ensures high-quality content and a ready supply of trainers for just-in-time delivery on demand.¹⁰

An additional method of training, which goes by various names (action learning, break-through sessions, etc.), consists of a group of 6 to 30 members convened by one or more stakeholders who identify a problem and solicit the group to brainstorm, analyze and recommend solutions. These can be formal or informal sessions and are used at all levels of the organization. These are highly focused and creative interventions that may involve external customers and suppliers if the problem warrants.

Training requests or requests for action learning sessions are not handled in a very formal manner. Essentially, the stakeholder or sponsor for the problem initiates a request when he or she deems the problem serious enough to benefit from a training intervention. Training permeates this organization (especially where line members double as trainers), and the ability to mobilize resources is widely distributed. There is relatively little tracking of training requests or outcomes. The attitude is that the proof is in the outcome – training is effective if it facilitates the ability to improve processes and delivery to the customer. In many ways, training is considered just another tool to get work done.

Summary

An organization that adopts a strategy of quality improvement/customer service is seeking competitive advantage by meeting or exceeding customer requirements. If properly structured, the human resource management function can help the organization achieve this goal by:

- Finding adequate numbers of qualified members.
- Assuring that members are focused on customer satisfaction.
- Rewarding members most committed to customer satisfaction.
- Ensuring long-term customer responsiveness through the constant development of members.

The human resource management function can help an organization using a strategy of quality improvement/customer service by ensuring its ability to identify, reward and develop those members most effective in satisfying customers.

Training permeates this organization . . . and the ability to mobilize resources is widely distributed.

The human resource management function can help an organization using a strategy of quality improvement/customer service by ensuring its ability to identify, reward and develop those members most effective in satisfying customers.

¹⁰ This model is used at CSX, the Department of the Navy, and PPG Industries.

... the philosophy that underlies it (treating everything – including people – as a commodity) is contrary to the view of people within the uniformed services.

This strategy is best suited to an organization whose product or service is generic enough that quality tends not to be an issue.

Organizational Strategy of Least Cost

An organization that adopts a least-cost strategy is seeking to meet defined standards at the lowest cost possible. Such organizations typically exist in a stable environment and produce an undifferentiated (commodity-like) product or service. Although there may be organizations within the uniformed services that could employ this organizational strategy, the philosophy that underlies it (treating everything – including people – as a commodity) is contrary to the view of people within the uniformed services. If employed within the uniformed services, this strategy requires tight fiscal and management controls and would strive to decrease the cost of output per member by increasing productivity and reducing the costs of operating resources and overhead.

In an organization using a least-cost strategy, the focus of the human resource management function is on *jobs*. Jobs are carefully and narrowly defined and produce a specific, identifiable value (for example, product or service) to the organization (in other words, the job structure is “atomized”). These narrowly defined jobs imply a steep, pyramid-like organizational structure.

Each job has a set of specific skill requirements that are defined and documented through formal job analyses. The job analyses document the basic knowledge, skills and abilities required to perform each job, as well as the level of responsibility. They are sensitive enough to detect subtle differences among jobs.

The organization typically strives to maintain close internal equity of job requirements. Although the specific duties of a particular job may vary, all jobs with similar knowledge, skills, abilities and responsibilities will be treated as equals. Internal equity is needed to prevent dysfunctional behavior. Because the jobs are narrowly and precisely defined, members will quickly recognize any instances where there is not “equal pay for equal work.” This realization can lead to problems of low morale.

The desired organizational outcomes associated with this strategy include an improved image of the military as an efficient organization, increased support for the organization as a whole and provision of least-cost services to other governmental entities. Organizational outputs that contribute to these outcomes include reduced resource requirements and benchmarking standards for other parts of the organization.

Private Sector Examples

Examples of private sector organizations using a strategy of least cost include Kraft Foods, AT&T, and McCormick Spices. Each of these organizations seek competitive advantage by offering an undifferentiated product or service at the least cost.

Potential DoD Applications

This strategy is best suited to an organization whose product or service is generic enough that quality tends not to be an issue. If this is the case, it is likely that there would be multiple alternative sources of the product, so that it would be a candidate for outsourcing as well. An organization might pursue this strategy if it sought to provide a product or service to other government agencies or components of the

uniformed services, particularly if there may be economies of scale in its production. Potential candidates for the least-cost strategy are functional activities such as personnel administration, finance, logistics and recruiting support;¹¹ installation support, contracting and maintenance depots might adopt this strategy as well.

Policies and Practices

In an organization using a strategy of least cost, work can be accomplished with a combination of teams and individuals. However, the focus is on individuals, so work is structured around simple, carefully and narrowly defined jobs. The organization will tend to be more centralized and hierarchical than those employing other strategies.

Compensation

To minimize the cost of compensation, the least-cost strategy depends on tight controls over all operations and functions, including labor. The key parameters used to define and describe the reward system are work definition, base pay structure, incentive programs and benefit programs.

Work Definition

Under a least-cost strategy, narrow job definition permits the use of relatively cheap labor, precise control and direction. The focus on jobs means that a member's perception of internal equity – the feeling that he or she is properly compensated relative to others in comparable positions – is formed by comparison of one job with another. Therefore, precise detailed job descriptions are extremely important.

Given the nature of the organizational structure, these organizations (and others that employ the same commodity-based approach to human resources) will emphasize the knowledge, skills and abilities required by jobs for competent performance, and the responsibility associated with the positions. Typical examples include the Hay Guide-Chart Profile Method of job evaluation and the Federal Government's Factor Evaluation System.

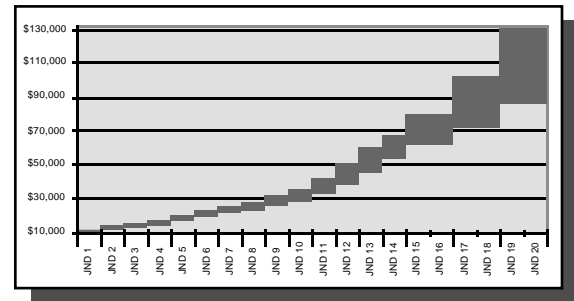
Base Pay Structure

These organizations are hierarchical, stratified and class-conscious. At the lower levels (individual member and supervisor), the strategy is to pay as little as possible to attract and retain competent performers. This often translates into below-market average pay at the lower levels of the organization. At the upper levels, organizations pay at or above the average of the marketplace to retain and reward the key individuals required to make the atomistic system of jobs work. In other words, mid- and senior-level leaders perform the critical roles of integrating and shepherding the highly fragmented structure. They are responsible for smooth coordination and integration of current operations as well as development of efficient operations. However, the emphasis is very much on the efficiency of current operations rather than continuous improvement.

¹¹ Or subfunctions within these functions.

Given the emphasis on control, there are many jobs and, consequently, many narrowly defined job and pay grades. For example, each grade will probably be no more than one just noticeable difference (JND) in width.¹² Such structures permit many “promotions,” which is a relatively inexpensive way to incentivize and reward good performance and to provide the appearance of upward mobility.

The width of pay grades will be narrow, in line with the narrow bands of jobs found in each grade. At the lower levels, pay ranges may be only 20 percent (namely, maximum over minimum – 100 percent = 20 percent) to ensure the organization does not overpay, and to ensure that minimums are not unrealistically low. The width of pay ranges will increase as position in the hierarchy increases (at the top levels, 50 to 60 percent) to provide more opportunity for high-performing mid- and senior-level leaders to continue to progress in pay as the opportunity for promotion diminishes.



Pay increases will be based on performance. Performance appraisals will be conducted by the immediate supervisor and reviewed by the next-higher level. In a stable environment, performance will, to a large extent, be carefully and precisely defined in quantifiable terms that the member can control (for example, time per unit work, cost of operating, amount of waste). Entrants will normally start at the minimum of the pay range, and promotion will carry a small, but reasonable increase in pay (for example, 5 to 10 percent). In this type of organization, annual increases are not guaranteed.

Incentive Programs

Incentive programs are typically restricted to the mid- and upper-levels of the organization. Such plans will normally be annual programs. Payout targets will range from 10 to 50 percent of base pay, depending on level in the hierarchy and nature of position. As in the case of pay increases, incentive plan criteria focus on quantifiable measures of key results, for example, cost, revenue, waste or profit. Plans often mix individual with higher-level performance measures. The mix will start with heavy emphasis on work unit performance at the lower levels of management and progress toward complete emphasis on organizational outcomes at the most senior level. Normally, only the top 20 percent or so of members are eligible for an incentive plan; and targets are set so that a majority of those eligible (over 60 percent) will earn the incentive.

¹² Again, a just noticeable difference is the smallest difference in content that individuals can reliably sense. Just noticeable differences are typically in the 15 percent range and expressed in terms of ratios rather than absolute differences.

Benefit Programs

Few benefits are provided at the lower levels, although some are tied to experience. At the upper levels, higher levels of benefits are provided to retain and reward the key contributors to the organization. For examples, retirement is typically longevity-based and tied directly to pay – so that short-timers receive virtually no retirement benefit; “career” members¹³ (who have proven their value) receive appropriately larger pensions; and all retirement plans are keyed to pay, thus reinforcing the ties to both length of service and level in the organization. Health benefits are standardized to reduce cost; consequently, there is very limited choice among alternatives; additional health benefits features are normally provided for the senior leadership (for example, better copayments, free annual physicals). There will be low to moderate cost sharing for health benefits to ensure the appropriate availability of labor. Life insurance is very low or nonexistent until higher levels of the organization are attained, in line with the hierarchical focus of the organization. Retiree health and life insurance may be provided to reward long-term members. Short- and long-term disability insurance is moderate and service-related, also in line with the organization’s focus on labor and hierarchy. Vacation days and holidays are similarly moderate, relative to other organizations’ provision of such benefits, and tied to length of service and organizational level.

Staffing

The overall objective of staffing in this organization is to place qualified individuals in jobs with minimum administrative cost. In achieving this overall objective, the system must accomplish a number of sub-objectives that typically include:

- Minimize the “start-up” time (namely, the time required to learn how to do a job) for new entrants.
- Minimize the costs of administering staffing.
- Ensure that internal equity is maintained across jobs within the organization.

The key aspects of staffing in meeting these objectives are the narrowly defined jobs and the job analyses that document the knowledge, skills and abilities required to perform each of the jobs.

The selection process starts with a job vacancy. The objective is to fill each vacancy with a qualified member at minimal cost. Because institutional experience and know-how is an important factor in reducing job start up time, the selection will most often be from within the organization. Existing members will need less time to learn the job and, thus, be more cost-effective in the long run.

The procedure for placing a member into a job occurs in two basic phases. As part of the initial screening, a member’s abilities are compared to the requirements of the job as described in the job analysis. Aspects of a candidate’s experience that are likely to be evaluated during this comparison include education, previous jobs held

The overall objective of staffing in this organization is to place qualified individuals in jobs with minimum administrative cost.

¹³ In this context, “career” means having been with the organization a substantial amount of time. It does not necessarily mean someone who will obtain a full retirement-eligible career, as in today’s concept of a 20-year career.

The overall objective of performance management in this organization is to motivate productivity and to minimize costs.

and documented performance in previous jobs. These comparisons are very mechanistic and often take the form of a checklist of specific, easily recognized requirements (for example, college degree, three years of general experience and knowledge of a particular computer language). The process is so automatic that it can be conducted via computer searches.¹⁴ The human resource management department typically performs this initial screening (as opposed to the supervisor), creating a list of candidates who meet the requirements of the job vacancy. The supervisor reviews this list and selects the candidate that is the best match to the job.

Performance Management

The overall objective of performance management in this organization is to motivate productivity and to minimize costs. Performance management practices must conform to legal guidelines without being time- or labor-intensive.

In these organizations, appraisals are simple in format and content (for example, does not meet, meets, exceeds performance levels). The factors are not customized to individuals and seldom change from year to year. Because jobs are narrowly and clearly defined, complex systems such as management by objectives are not cost-effective. However, the content of performance assessments will vary as a function of job type. Although a fair number of management levels exist within the atomized job structure, the performance management system most likely will use four general levels. These levels¹⁵ are listed in Table 12.

Table 12 – Performance Management Assessment Structure

	SIMPLE OBSERVATIONS	UNIT PERFORMANCE	STRATEGIC BEHAVIORS
<i>Individual Members</i>	<i>Primary</i>		
<i>Supervisors</i>		<i>Primary</i>	
<i>Mid-level Leaders</i>		<i>Primary</i>	<i>Secondary</i>
<i>Senior Leaders</i>		<i>Secondary</i>	<i>Primary</i>

The type of performance that is measured or assessed by the performance management system will be a function of these management levels. For individual members, the system focuses on simple behaviors that comprise the knowledge, skills abilities and duties of the job (for example, attendance, speed, accuracy). Supervisors are assessed on the cost and productivity of their areas. Mid-level leaders are assessed along two major dimensions: Unit performance will remain the primary factor in assessing their performance. However, individuals in these positions need to be looking at ways to reduce cost or increase productivity. This consideration means that mid-level leaders are also assessed for strategic behaviors (for example, planning, conceptual thinking and high standards of achievement). Although unit performance

¹⁴ Texas Instruments is an example of a company that uses such a process.

¹⁵ In the private sector, commonly used terms would be individual contributors, entry-level managers, mid-level managers and senior managers. These would correspond to service members, junior NCOs/petty officers, senior NCOs/chief petty officers and officers, and general and flag officers.

is still a part of the assessment for senior leaders, the primary emphasis is on thinking ahead and identifying means to ensure that the organization maintains its cost advantages. Appraisals are linked to compensation as a basis for increases and to staffing as a consideration for promotion.

Training and Development

Among the various organizational strategies, training and development are valued least in this type of organization. The philosophy views training and development as a cost of doing business that must be contained along with costs of materials and operations.

The primary objectives of training under this strategy include:

- Providing job-specific skills training. The atomistic nature of jobs and the careful job analysis required for the selection system enables the human resource management department to specify the skill requirements job by job. These skill requirements then define the training needs for each job. Training is provided to enable the member to perform at a satisfactory level. Training that is not specifically linked to the member's current job is considered unnecessary.
- Delivering training in the most cost-effective manner possible. Training occurs only when necessary and seeks economy of scale in delivery.

Training is provided for one of three reasons: to orient a new entrant to the job, to train a member for a new job following promotion, or to close a performance gap identified in the annual performance appraisal process. Training requests are always initiated by the individual's supervisor. The focus is on performance outcomes. These are appraised annually. For members who do not meet expectations, the supervisor or mid-level leader is responsible for identifying how to best close the performance gap. This could involve any number of interventions including training, disciplinary action or separation.

The mid-level leader proposes and manages the unit training budget and is always working to identify the least-cost alternative to improve performance at the individual level. Leaders in this type of organization often view training budgets as a way to manage the bottom line. During periods of relative profitability, training tends to be used freely to improve performance. However, during periods of reduced profitability, the training budget is often cut to improve the bottom line. This can be seen in the commodity-based industries and food service businesses.

Training content is skill-based and job-specific. The job analyses conducted for the selection system provide the learning objectives for the training courses for each job. Training in management skills is provided, on a just-in-time basis. Supervisors and leaders are trained *after* they have been assigned management duties, not before.

Training is primarily conducted on the job and in a one-on-one setting where the trainee is taught by a more experienced co-worker or supervisor. If training can not be conducted by a co-worker or supervisor on the job, it is often conducted in a classroom where groups of members can be trained simultaneously. Classes are held on-site to eliminate travel and lodging costs for trainees. Courses with sufficiently large

Among the various organizational strategies, training and development are valued least in this type of organization.

enrollments may justify alternative methodologies such as video conferencing, computer-based delivery, or self-study. Members are expected to seek course work and develop management skill sets (such as public speaking, written communication, etc.) on their own time and at their own cost. The organization may make referrals to appropriate courses, but will not subsidize them.

Summary

An organization that adopts a strategy of least cost is seeking to achieve competitive advantage by offering its products or services at the lowest cost possible while still meeting customer quality expectations. If properly structured, the human resource management function can help the organization meet its least-cost goals by:

- Placing qualified members in jobs with minimum administrative costs.
- Motivating members to be productive and to minimize cost.
- Minimizing compensation costs to the organization.
- Minimizing training costs by providing only job-related training.

Organizational Strategy of Military Effectiveness

The assumptions underlying the design of the military effectiveness system include the belief that trust, unit cohesion, reliability and responsiveness are desirable attributes; jointness is valued; and reassignment between units is necessary. Such an organization would stress cooperative behavior and fairly open communications. Fixed policies and procedures will be in place to ensure reliability and trust. However, within the fixed policies, there will be some decision autonomy to ensure responsiveness and, in the end, *results* are more valued than *process*.

An organization that aligns its human resource management system around the organizational strategy of military effectiveness would have the following characteristics:

- Focus on being responsive and reliable.
- Culture based on a strong sense of duty and unit cohesion.
- Diverse forces that can adapt to wide range of contingencies.
- Joint perspective.

Organizational outcomes associated with this strategy include operational units ready to deploy anywhere in the world on short notice, superior readiness for operational units when not deploying and operational units that are superior in warfighting capabilities to any potential future combatant.

Policies and Practices

In an organization using a strategy of military effectiveness, work is accomplished with a combination of teams and individuals. Work is structured mainly around teams

and broadly defined jobs rather than individuals and simple, clearly defined jobs. This type of organization tends to have a steeper hierarchy and more centralized authority (though in both cases less so than the current military system) to ensure cohesiveness and consistency.

Compensation

The overall objective is to attract, retain and motivate the most qualified and capable members to ensure the mix of capabilities is available at the right time. To reinforce commitment to the organization, compensation would be highly egalitarian, stress internal equity and be provided through fixed (base) pay and benefits. Variable pay (pay-at-risk) would be extremely limited. A balance between job- and skill-based pay would be maintained. The aggressive use of nonmonetary rewards would be used to reinforce a strong sense of duty and unit cohesion. Incentives would be focused on specific skills.

The key parameters used to define and describe the reward system are work definition, base pay structure, incentive programs and benefit programs.

Work Definition

Work is defined in terms of broadly defined jobs with members formed into teams. These teams play an important role in a military effectiveness organization. Rules and regulations will be established to help ensure reliability; however, some flexibility will be allowed to ensure responsiveness and effectiveness. Three main criteria are considered in determining the value of work: (1) control over resources – how much equipment, members, dollars, etc., are involved; (2) unit or team mission – the criticality of the mission of the unit or team; and (3) individual competencies – experience, training, qualifications and cross-functional capability.

Base Pay Structure

In such an organization, external comparisons are not available; therefore, internal equity is much more important than external equity – money is not the prime motivator. This type of organization will set pay levels as low as possible while still recruiting the right number and maintaining the right distribution of capable members. Non-cash compensation – such things as training, benefits and recognition – is emphasized to a higher degree than in other organizations. Because working closely together in teams forces comparisons between pay and capability levels, they are clearly defined and obvious to all team members

There are relatively many pay grades to support the emphasis on rewarding vertical career progression. For example, each grade will be no more than two just noticeable differences in width, at all but the highest levels.¹⁶ At the highest level, differences are related to control of resources and scope of mission and will range from two to four just noticeable differences.

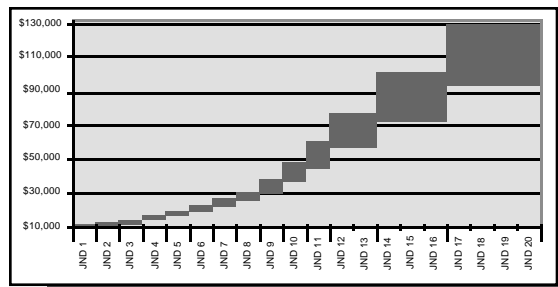
The overall objective is to attract, retain and motivate the most qualified and capable members to ensure the mix of capabilities is available at the right time.

¹⁶ As defined earlier, a just noticeable difference is the smallest difference in content which individuals can reliably sense. Just noticeable differences are typically in the 15 percent range of difference and expressed in terms of ratios rather than absolute differences.

Generic Human Resource Management System Descriptions

Pay ranges are narrow at all levels – this is consistent with the grade structure. At the low end pay ranges will be only 10 to 20 percent (namely, maximum over minimum – 100 percent = 20 percent). At this level, rapid increases in competencies are accompanied by promotions that equate to pay grade increases.

Ranges will increase gradually to a range of 30 to 40 percent at the top end. This broader range recognizes the slower ability to acquire and/or demonstrate increased competencies and more limited opportunities to retain capable members at all levels. Pay increases will be based on increased competencies and contribution to the team.



Incentive Programs

Incentive programs will be almost universally available. In addition to uses that correspond to those of today's special and incentive pays, incentive programs predominately would reward individuals and potentially reward teams, using lump-sum payments tied to performance measures. Incentives will be both short- and longer-term and include both cash and non-cash elements (for example, time off, special training/development opportunities or special assignments).

Short-term cash incentives will include such things as on-the-spot payments, annual bonuses for performance, and special pays while engaged in a particular occupation/activity. These incentives can be provided to either teams or individuals. Cash incentives typically will be set to the lowest levels necessary to achieve the desired outcome. Examples of non-cash incentives include additional training and leave with pay. Non-cash incentives are often more valuable than cash incentive payments. The dollar value could reach around \$100,000 for professional schooling opportunities. To ensure appropriate return on investment, there will be strings attached (service-related) to the more valuable non-cash benefits.

Benefit Programs

A military effectiveness organization will provide all encompassing benefits similar to those offered in today's system. Benefits will be an important element in fostering reliability, trust and cohesion.

Staffing

The overall objective of staffing is to provide opportunities for multi-faceted experience, to select the highest qualified members for positions at all levels of the organization and to encourage poorer performers to exit the system.

This organization will centralize staffing with a clearly defined career development system. Career development will be linked to succession planning to ensure that the organization has the right number of the right skills and behaviors at the right time to meet its needs.

The overall objective of staffing is to provide opportunities for multi-faceted experience, to select the highest qualified members for positions at all levels of the organization and to encourage poorer performers to exit the system.

Organizations using a military effectiveness strategy would rely on an internal labor supply with a heavy emphasis on organizational fit (namely, matching individuals to desired organizational behaviors). Although vertical, narrow career paths would be prevalent, future organizational designs would move modestly toward broader career paths and horizontal development opportunities. Initial screening would be enhanced to ensure organizational fit.

Performance Management

The main objective of performance management, under a military effectiveness strategy, is to support unit effectiveness through career development and feedback and by providing information to the staffing and reward systems.

Periodic evaluations or assessments are conducted for both teams and individuals. Team assessments are most often completed by the team's sponsor (in this case, the authority to whom the team reports) and are based on group performance. Both team members and the team leader are assessed (the team leader assessment typically includes more factors than the team member assessments). Appraisal processes may use multiple sources (for example, professional exams, competency reviews, feedback surveys, superiors, subordinates and peers); they paint a more complete picture of a member's performance than does a simple supervisory appraisal. Multi-source assessments are particularly useful in measuring behaviors and competencies important to teamwork and cooperation (for example, listening and responding, initiative and interpersonal awareness) that are difficult to measure in traditional performance appraisals.

Individual assessments are linked to compensation (for example, as one of the criteria for base pay increases), to promotion (for example, as the primary basis for selection), and to training and development (for example, as evidence of developmental needs or opportunities). Appraisals are relatively simple in format and standard across the organization.

Training and Development

As in today's system, a military effectiveness strategy requires a very significant amount of investment in training and development, *both* for individuals and teams. Furthermore, career development and continuous training programs would be emphasized over job skill training and just-in-time training. In essence, operational units, when not executing an actual mission, *are* learning organizations.

Summary

An organization that adopts a strategy of military effectiveness would have a human resource management system that looks, in many ways, the same as it does today. Important exceptions, however, include:

- Broader job design.
- Multi-source appraisals.
- Pay increases based on competencies and contribution rather than longevity.

The main objective of performance management, under a military effectiveness strategy, is to support unit effectiveness through career development and feedback and by providing information to the staffing and reward systems.

. . . a military effectiveness strategy requires a very significant amount of investment in training and development, both for individuals and teams.

CHAPTER 8

AN ILLUSTRATIVE TAILORED FLEXIBILITY SYSTEM

... an organization as large and diverse as the Department of Defense requires a human resource management system with sufficient flexibility for parts of the department to tailor policies and practices to their specific needs.

Introduction

This report argues that an organization as large and diverse as the Department of Defense requires a human resource management system with sufficient flexibility for parts of the department to tailor policies and practices to their specific needs. At the same time, those parts of the organization must work toward common ends. The concept of *tailored flexibility*¹ provides the framework within which to balance these competing needs in a structured and directed way. This chapter illustrates how such a system might work in the Department of Defense.

Assume, for this illustrative description, that the department consists of multiple subunits as depicted in Figure 22. In this example, the corporate level is defined as the Department of Defense (Office of the Secretary of Defense and the services) and subunits are defined as communities. However, subunits could also be defined as major commands, functions or independent operating agencies. The operational community would, for the most part, focus on an organizational strategy of military effectiveness. Other communities would choose organizational strategies more appropriate for their missions, such as innovation, quality improvement/customer service or least cost.

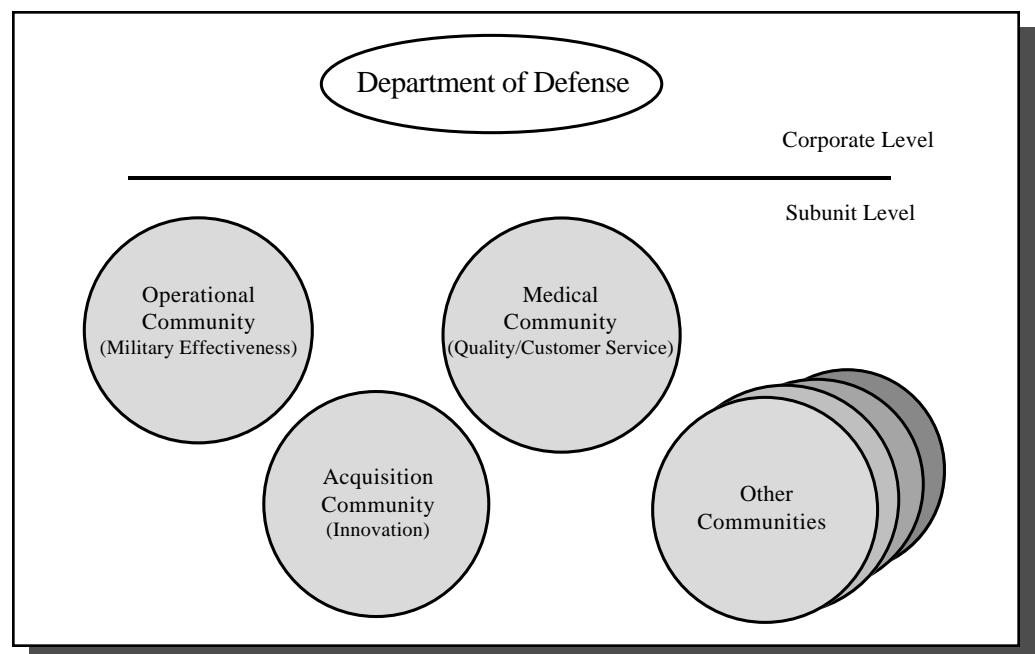


Figure 22 – Notional Organizational Context for Tailored Flexibility

¹ Tailored flexibility is introduced in Chapter 3.

The corporate level is primarily concerned with *integration*. In other words, each community must support the overall defense strategy (vertical integration) and all communities must work together toward the common end and complement each other where appropriate (horizontal integration).² Vertical and horizontal integration considerations form the context within which the department decides how much flexibility to grant to communities – flexibility to tailor human resource management policies and practices to achieve their desired outcomes. Integration considerations also help identify requirements that extend across the enterprise: the *core requirements* that are necessary to achieve and sustain the enterprise-wide strategic intent.

In a tailored flexibility design, the department identifies core requirements of the human resource management system and specifies, to the degree it deems appropriate, the core attributes, policies and practices that follow from them. Each community would have the ability to tailor other policies and practices to its particular strategy.

Core Requirements

Core requirements are imperatives that extend across an organization and are critical to achieving its strategic intent. They apply to all the communities that comprise the department. Joint Vision 2010, Force XXI and Air Force 2025, for example, suggest core requirements – some explicit, others implicit. Because the entire military organization (the Department of Defense) is working toward the same end, two of these requirements appear consistently and serve as the basis for the illustrative system description: the continued need for a *common military culture* and the continued and growing need for *joint operations*.

Military culture includes core values, high ethical standards and a focus on operational expertise. “Military operations will continue to demand extraordinary [personal] dedication and sacrifice under the most adverse conditions.”³ “[R]egardless of how sophisticated technology becomes, the individual warfighter’s judgment, creativity, and adaptability in the face of highly dynamic situations will be essential to the success of future joint operations.”⁴ The “organizational climate must reward critical thinking, foster the competition of ideas, and reduce structural or cultural barriers to innovation.”⁵ For the department to succeed in its overall mission, this culture must permeate the entire organization, not just the operational community.

Joint operations will increasingly characterize warfare: “The nature of modern warfare demands that we fight as a joint team. This was important yesterday, it is essential today, and it will be even more imperative tomorrow. Joint Vision 2010 provides an operationally based template for the evolution of the Armed Forces for a challenging and uncertain future. It must become a benchmark for Service and Unified Command visions.”⁶ “That outcome can only be accomplished through

. . . each community must support the overall defense strategy (vertical integration) and all communities must work together toward the common end and complement each other where appropriate (horizontal integration).

² See 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective*, Chapter 2, for a detailed explanation of the levels of strategy.

³ U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 28.

⁴ U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 27.

⁵ U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 33.

⁶ U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. i.

Jointness is only one manifestation of a more basic competency: the ability to integrate the activities of a diverse set of organizations, each of which strives for different objectives . . .

a seamless integration of service capabilities. To achieve this integration while conducting military operations, [the armed forces] must be fully joint: institutionally, organizationally, intellectually, and technically. Future commanders must be able to visualize and create the “best fit” of available forces needed to produce the immediate effects and achieve the desired results. [Additionally, i]t is not enough just to be joint, when conducting future operations. . . . [T]he most effective methods for integrating and improving interoperability with allied and coalition partners” must also be found.⁷ Jointness is only one manifestation of a more basic competency: the ability to integrate the activities of a diverse set of organizations, each of which strives for different objectives, yet whose individual and collective performance is critical to success of the whole.⁸ Increasingly, procedures, programs, and planning must recognize this reality.

Getting from Core Requirements to Core Policies and Practices

One way to arrive at core policies and practices is through a structured process that begins at the relatively abstract level of core requirements. The process continues by identifying implications at progressively less abstract and more concrete levels, until requirements are clear enough to specify policies and practices.

Once leaders at the department level have broadly identified core requirements, they can consider implications of the core requirements in the form of more specific, but still general, attributes of a system. To follow that process in this example, one might ask, “What attributes underlying a human resource management system would support core requirements of culture and jointness?” A distinctly military culture, for example, might be expected to be relatively homogeneous and stable; therefore, one might expect its members to share a set of common, enduring values – so *shared values* could be one attribute. Likewise, because any member may be called upon to sacrifice his or her life – all are equals in that respect – *egalitarianism* might be another desired attribute. Similarly, for all of these reasons, one might like all members to be able to expect fair treatment, and *internal equity* would be important. Because one of the strongest pillars of military culture is the role of leadership – evident in the hierarchical structure; supported by the Uniform Code of Military Justice – *leadership preeminence* should be another general attribute.

Perhaps the most salient attribute of a system to support jointness would be that members of different services can easily unite for common operations, so *interoperability* is important. A common culture would facilitate jointness, so the *shared values* that underlie military culture are equally valuable here. In joint operations, members of different services or organizations working side by side will need to be able to rely on one another in the same kinds of life-and-death circumstances that characterize all military operations, so *trust* and *confidence* are important attributes for a system to support. Table 13 summarizes these attributes.

⁷ U.S. Joint Chiefs of Staff, *Joint Vision 2010*, pp. 8-9.

⁸ For example, active and reserve; military and civilian; in-house and privatized; US and foreign; etc.

Table 13 – Core Requirements and Underlying Attributes

MILITARY CULTURE	JOINT OPERATIONS
<i>Egalitarianism</i>	<i>Interoperability</i>
<i>Internal equity</i>	<i>Trust</i>
<i>Shared values</i>	<i>Shared values</i>
<i>Leadership preeminence</i>	<i>Confidence</i>

In proceeding from the abstract to the concrete, department-level leaders identify specific policies and practices necessary to support the core requirements. They may restrict other policies and practices only in a very general sense. For example, the department might express a “philosophy,” with the specific implementation left to the subunits. Still other policies and practices would likely have little or no influence on the core requirements, thus allowing communities to tailor them with little or no corporate-level guidance. So, the department may establish a specific pay table, provide only general guidelines on establishing incentive pay plans (for example, requiring such plans to be based on performance), and set no limitations on training and development within a community.

For each element of a human resource management system, the attributes listed in Table 13 imply the need for certain core policies or guidelines. To maintain internal equity and support egalitarianism, for example, it may be desirable that members serving side by side have certain equality of pay, so a *common pay table* might be specified. The common pay table would also facilitate the crossflows of personnel from organization to organization implied by the interoperability requirement of jointness.

The preeminence of leadership implies the need for a *standard metric* for evaluating performance that is *linked to promotion and command* and the need for centralized selection boards. To support shared values, recruiting criteria might include a *moral standards* component. Requiring an *initial operational assignment* of every member would support interoperability (because joint assignments are likely to be operational) and engender confidence in a member’s perceptions of others’ abilities; and *common initial training* at entry would support development of shared values, trust and confidence.

Finally, one guideline that could follow from cultural and jointness considerations, generally, is that the systems of any community, however tailored, support *crossflow* of personnel from one organization to another to permit developmental assignments for the purposes of succession planning. These examples, summarized in Table 14, are illustrative; only the leaders of the organizations affected can legitimately define core requirements.

Table 14 – Core Policies, Practices and Guidance

HUMAN RESOURCE MANAGEMENT SYSTEM COMPONENT	CORE POLICIES AND PRACTICES	CORE GUIDANCE
<i>Organizational design</i>		<i>Crossflow</i>
<i>Staffing</i>		
<i>Recruiting</i>		<i>Crossflow</i> <i>Moral standards</i>
<i>Assessing</i>		<i>Crossflow</i>
<i>Assigning</i>	<i>Initial operational assignment</i>	<i>Crossflow</i>
<i>Promoting</i>	<i>Centralized boards; based on leadership potential</i>	<i>Crossflow</i>
<i>Succession planning</i>	<i>Centralized boards for senior commands</i>	<i>Crossflow</i>
<i>Performance management</i>		
<i>Appraisals</i>	<i>Standard metric for evaluating leadership potential; linked to promotion and command selection</i>	<i>Crossflow</i>
<i>Compensation</i>		
<i>Basic pay</i>	<i>Common pay table</i>	<i>Crossflow</i>
<i>Incentives</i>		<i>Crossflow</i> <i>Common contribution component</i>
<i>Benefits</i>		<i>Crossflow</i> <i>Retirement benefits portable; minimum standard level</i>
<i>Training and development</i>	<i>Common initial entry training</i>	<i>Crossflow</i>

The major impact falls in three areas:

- **Basic pay table:** A pay table that would be the same in all organizations. A common pay table would maintain internal equity and facilitate transfer of personnel across organizations.
- **Promotion:** A common promotion policy based on leadership skills, much the same as it is today. This is because the identification and promotion of future leaders are key requirements in maintaining the military culture.
- **Performance management:** A performance management system that evaluates every service member on a common metric related to leadership potential, to support the core promotion policy. This common metric would ensure comparable capabilities of leaders operating in a joint environment.

The list of core policies and practices is remarkably short given the substantial number of policies and practices available from which to choose. It leaves substantial flexibility for communities to tailor additional policies and practices to achieve their desired outcomes. They may tailor promotion and appraisal systems, for example, by

simply *adding* community-specific practices. Even a common pay table can allow substantial flexibility to the different communities, although this is somewhat more difficult to see. Therefore, the basic pay table is described in more detail.

Table 15 depicts a possible pay table in a generic level-and-step format. If the levels in the pay table were tied to pay grades (as suggested in the right-hand column) and if the steps were based on longevity (in particular, time in service) as they are today, then Table 15 would closely approximate the current basic pay table.

Table 15 – Illustrative Basic Pay Table

	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10	GRADES
Level 10	65,400	70,959	76,991	83,535	90,635	98,339	106,698	115,767	125,608	136,284	O7-10
Level 9	48,500	52,259	56,309	60,673	65,375	70,441	75,901	81,783	88,121	94,950	O5-6
Level 8	37,000	39,590	42,361	45,327	48,499	51,894	55,527	59,414	63,573	68,023	O4
Level 7	29,000	30,813	32,738	34,784	36,958	39,268	41,723	44,330	47,101	50,045	E8-9 O3
Level 6	23,400	24,687	26,045	27,477	28,988	30,583	32,265	34,039	35,912	37,887	E7 O2
Level 5	18,500	19,379	20,299	21,263	22,273	23,331	24,440	25,601	26,817	28,090	E6 O1
Level 4	15,200	15,808	16,440	17,098	17,782	18,493	19,233	20,002	20,802	21,634	E5
Level 3	12,900	13,319	13,752	14,199	14,661	15,137	15,629	16,137	16,661	17,203	E4
Level 2	11,400	11,685	11,977	12,277	12,583	12,898	13,221	13,551	13,890	14,237	E2-3
Level 1	9,700	9,870	10,042	10,218	10,397	10,579	10,764	10,952	11,144	11,339	E1

Although the basic framework and content of the table would remain common throughout the department, communities could tailor the way members progress through the table. For example, pay steps may be based on experience, skill or performance. Pay levels may be based on position, level of responsibility, rank and/or performance. Different communities might use different combinations. Initially, pay levels may be linked to rank; over time, communities may evolve alternative criteria for awarding pay levels – and may choose not to use all of the levels or to combine levels to create broader “bands.” The department may establish appropriate policies such as standardized procedures for annual adjustments to the base pay table that apply throughout the services.

This suggestion is not as radical as it may seem. The uniformed services have a common pay table currently. However, by varying the timing of promotions, the services effectively tailor this common pay table to their specific needs. What is being suggested is more variation to address more diverse needs.

The remainder of this chapter gives examples of policies and practices tailored to communities using different organizational strategies. This is done in the context of supporting military culture and jointness as core requirements.

Tailored Policies and Practices

The core policies and practices would be defined at the department level. Each community could tailor their other policies and practices to support its particular strategy. Starting with the current system, each community would gradually introduce variations where permitted and where it made sense to do so – under the guidance of the Defense Human Resources Board proposed in *Rewarding, Organizing*

Although the basic framework and content of the table would remain common throughout the department, communities could tailor the way members progress through the table.

and Managing People for the 21st Century: Time for a Strategic Approach – Part III: Managing Change.

The human resource management systems designed to support specific organizational strategies, described in Chapter 7, represent the diversity possible in tailored systems. Any of the policies or practices described there could be implemented by communities to the extent they are not proscribed by the department and to the degree they are consistent with the community's strategy. Communities would develop these tailored systems through processes such as the one described in this report – by making strategic choices to support desired role behaviors and organizational outcomes.

Possibilities for tailoring are discussed below, in some cases with more specificity than others, as “food for thought.” The discussion focuses on basic pay, incentive pay, benefits staffing and performance management.

Basic Pay

A community may individualize the core pay table by specifying the pay table cells it will use and how members will advance through the table. Thus, the community may define pay band widths for each pay level and establish criteria for awarding pay step increases based on experience, skill, performance or time in grade. It may link these to the performance management system.

For example, an organization using a military effectiveness strategy may use all 10 pay levels but only a few steps in each grade, as illustrated in Table 16. Pay levels are linked to promotion/military rank (for some promotions, such as O-5 to O-6, promotion would result in a step increase). Pay steps are linked to experience (time in grade increase every 12 months for pay levels 2-4 and every 24 months for pay levels 5-10). This example results in a basic pay table very similar to the current pay table. Alternatively, pay step increases may be based upon a combination of experience (time in grade) and performance. In this case, step increases normally occur periodically, perhaps every 24 months; however, commanders may award step increases earlier for superior performance, delay step increases for marginal performance, or bar step increases for substandard performance.

Table 16 – Illustrative Pay Table for Military Effectiveness

	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10	GRADE/ RANK
Level 10				83,535	90,635	98,339	106,698	115,767	125,608		O7-10
Level 9			56,309	60,673	65,375	70,441	75,901	81,783			O5-6
Level 8			42,361	45,327	48,499	51,894	55,527				O4
Level 7			32,738	34,784	36,958	39,268	41,723				E8-9 O3
Level 6			26,045	27,477	28,988	30,583	32,265				E7 O2
Level 5			20,299	21,263	22,273	23,331	24,440				E6 O1
Level 4	15,200		16,440		17,782		19,233				E5
Level 3	12,900		13,752		14,661		15,629				E4
Level 2		11,685							13,890		E2-3
Level 1	9,700					10,579					E1

An organization using a strategy of innovation, in contrast, may choose to define only four broad pay levels based on level of experience and degree of responsibility within the organization (for example, research support, apprentice, journeyman, project lead). Such a pay table is illustrated in Table 17. Individuals are placed/advanced in the band based on periodic skills/competency assessment. The wide pay bands support a flatter organizational structure and horizontal career development paths; military rank would be less relevant to advancement in such an organization.

Table 17 – Illustrative Pay Table for Innovation

				LEVEL
Level D	48,500		125,608	Project Lead
Level C	29,000		63,573	Journeyman
Level B	18,500		35,912	Apprentice
Level A	12,900		20,802	Research Spt

Incentive Pay

The ideal . . . is to create conditions where pay can be effectively related to performance and as a result have it be an important contributor to the effectiveness of the organization.⁹

Incentive pay (variable pay/pay-at-risk) is earned by meeting specified performance criteria; it is not an entitlement. Incentive pays are based on behaviors or performance that contribute to the achievement of desired organizational outcomes and may be awarded for individual, team, organizational performance or a combination.

An individual community tailors incentives to specific measures of performance. In other words, it establishes incentive pay mechanisms consistent with its organizational strategy. It determines the pool of service members eligible and the frequency of payouts, as well as the source of incentive funds. The community also develops measures to evaluate the effectiveness of incentives.

Service members eligible for incentives in a particular community would be considered for the rewards while in that community. Eligibility for incentives, upon transfer to a different community, would be contingent on the application of incentives in that community (because the incentives are designed to obtain the behaviors and outcomes desired in the particular community in which they apply). This would require a change from an entitlement to a contribution-based culture.

Table 18 illustrates incentive pay characteristics tailored to four different organizational strategies.

This would require a change from an entitlement to a contribution-based culture.

⁹ Fombrun, Tichy and Devanna, p. 137.

Table 18 – Illustrative Incentive Pay Characteristics Tailored to Different Organizational Strategies

	LEAST COST	INNOVATION	QUALITY IMPROVEMENT/ CUSTOMER SERVICE	MILITARY EFFECTIVENESS
Basis	Quantifiable results (for example, cost, revenue, waste)	Project outcomes (for example, schedule, costs, long-term result)	Quality improvement/customer service measures (for example, customer satisfaction, number of complaints/returns)	Performance outcomes – individual and team (for example, fitness, weapons, maneuvers, readiness)
Frequency	Annual	Tied to product/project cycle	Quarterly	Quarterly
Who is eligible	Mid- and upper-levels (about 20%)	60-80%	80-100%	Universal
Percent (of eligible) who get payout	60+%	40-60%	80-100%	50+%
Size of payouts (percent of base)	10-50%	30-40% lower levels; 40-60% higher levels	10-15% lower levels; 15-25% higher levels	1-10%
Risk	Moderate risk (higher levels only)	Real risk	Low risk	Low risk

Benefits

The core policy consists of minimum benefit levels as a “safety net” for all members. Beyond the minimum levels, the community can tailor benefits to serve as an incentive or retention tool, although benefits are generally an expensive way for accomplishing these ends. Communities may elect to offer cafeteria-style benefit upgrades in which individuals have some choice, or the communities could offer standard benefit upgrades.

For retirement, length of service required for vesting might vary by community. Vesting in the operational community could occur in 12 to 15 years, while vesting in communities that recruit in primarily external labor markets might find it necessary to offer vesting as early as 5 to 7 years. In some communities, service members might accrue benefits at a relatively low rate; these communities might offer contributory plans to supplement retirement. The operational community, for example, might provide a high benefit with no service member contribution. A community focused on a strategy of innovation might provide a relatively low, non-contributory benefit, but employ a contributory supplement (perhaps with a matching contribution). The annual accrual charge would vary from community to community. Table 19 depicts a range of illustrative benefits.

Table 19 – Illustrative Benefits Characteristics for Each Organizational Strategy

	LEAST COST	INNOVATION	QUALITY IMPROVEMENT/ CUSTOMER SERVICE	MILITARY EFFECTIVENESS
Objective	Provide minimum package needed to ensure recruitment	Provide valued employee maximum flexibility and choice	Build organizational commitment	Build organizational commitment
Retirement	Service-related, career-based, tied to fixed pay	Contributory plan; matching level based on project success	Contributory plan; matching level tied to gain sharing	Career-based, related to length of service
Health	<ul style="list-style-type: none"> Standardized at lower levels Flexible at upper levels Low to moderate cost to member 	<ul style="list-style-type: none"> Flexible, tailored to individual Medium to high cost to member 	<ul style="list-style-type: none"> Uniform with some choice Low to medium cost to member 	<ul style="list-style-type: none"> Uniform comprehensive coverage including dependents Low cost to members
Life Insurance	Minimum with employee options	Minimum with employee options	Medium, optional coverage available	High, uniform benefit with options available
Retiree Medical and Life Insurance	No	No	Varies	Yes
Short- and Long-term Disability	Minimum benefit, optional coverage available	Minimum benefit, comprehensive	Medium benefit, comprehensive	High benefit, comprehensive
Leave	Low, position-based	Low, position-based	Medium, based on length of service	High, based on length of service
Holiday	Low and fixed	Medium and flexible	High and fixed	Moderate and fixed

Staffing

The department's core guidance would result in mandatory procedures to ensure recruits meet minimum "moral standards." Beyond these, communities could design their own aptitude, behavior and fitness screening criteria and procedures. (The level of core guidance in this example is admittedly minimal; the department may choose to require minimum standards across the board for other criteria as well.)

A support community that uses an organizational strategy of customer service, for example, might actively recruit most of its initial hires "internally" from the operational community. This would facilitate a clearer understanding of customer needs and ensure the support community maintains a military culture. This internal recruiting could be incorporated into developmental programs. For example, an assessment process common to all communities could assess all members at certain career points and provide a database of interest and aptitude for various career options. Initial assessments could occur after the service member has become familiar with the institution – and vice versa (between 5-10 years). A second assessment, leading to advancement to the most senior leadership positions could occur after the service

member has made a clear commitment to the military (around 15-25 years). The British military is considering such an assessment process as a result of recommendations of a recent study.¹⁰

Given a common system in which award of rank is based on leadership skills, communities may further tailor promotion policies and practices to their needs. Communities may choose to differentiate between promotions to rank and promotion to pay grade, depending on organizational needs. The operational community, for example, may promote to fill vacancies that call for a greater level of responsibility. In this case, rank and pay grade would be strongly linked to each other and to positions defined primarily in terms of responsibility.

On the other hand, communities focusing on innovation or quality improvement/customer service strategies may develop paths that allow service members to advance based on demonstrated skills, competencies or performance. Such promotions could result in increased pay but not increased rank – rank being primarily dependent on leadership abilities.

Table 20 compares possible policies and practices related to staffing among organizations with different strategies.

Table 20 – Illustrative Staffing Characteristics by Organizational Strategy

	LEAST COST	INNOVATION	QUALITY IMPROVEMENT/ CUSTOMER SERVICE	MILITARY EFFECTIVENESS
Objective	Placement of qualified members in jobs at minimum cost	Placement of highly qualified members to fill organizational roles	Placement of qualified members to fill organizational roles	Placement of qualified members to fill broadly defined jobs
Selection source (non-entry level)	Internal	Internal and external	Internal	Internal
Screening	Simple checklist	Multiple levels: human resources department; team leader; team members	Simple; based on team fit	During entry level training; performance focus
Promoting	Based on skills and performance. Results in pay and rank increases.	Based on skills, competencies and performance. Results in pay increase; not necessarily rank.	Based on skills, competencies and performance. Results in pay increase; not necessarily rank.	Based on performance and leadership potential. Results in pay and rank increases.

¹⁰ Independent Review of the Armed Forces' Manpower, Career and Remuneration Structures, p. 31.

Performance Management

Every community will evaluate service members on similar leadership criteria for the purposes of promoting to higher ranks. Beyond this core requirement, a community can tailor its system to satisfy other needs. For example, it may define evaluation criteria in terms of competencies important to carrying out its organizational strategy. This part of the performance management system could be used for developmental purposes or for horizontal career advancement, as well as for providing increases in compensation. Evaluations for these purposes might include multiple input sources.

A community using a quality improvement/customer service strategy could evaluate its members based on behaviors that include “attention to detail” or “achievement orientation,” for example, and on outcomes that include “customer satisfaction.” Assessments could occur frequently – perhaps quarterly. Based on these assessments, members would receive developmental feedback, incentive-based rewards and consideration for promotions (such as change in position or level of responsibility) within the community.

When a member is assigned to another community that focuses on a different organizational strategy, he or she would be evaluated using the system of the gaining organization. Table 21 compares possible policies and practices related to performance management among organizations with different strategies.

Table 21 – Illustrative Performance Management Characteristics by Organizational Strategy

	LEAST COST	INNOVATION	QUALITY IMPROVEMENT/ CUSTOMER SERVICE	MILITARY EFFECTIVENESS
Objective	Motivate productivity and minimize waste	Ensure successful completion of project team goal	Ensure high level of quality and customer satisfaction	Ensure unit effectiveness and career development and feedback
Monitoring	Cost factors	Team effectiveness	Quality standards	Mission effectiveness
Assessment	Simple measures	Customized by individual team	Output and behavior	Output and process
Source of Input	Supervisor	Team leader and team members	Team leader, team members and customers	Multi-source assessment
Frequency	Annually	Varies – at least twice yearly	Quarterly	At least annually

CHAPTER 9

CUSTOMIZING HUMAN RESOURCE MANAGEMENT SYSTEMS

This chapter describes six applications of the process recommended in this report. Each application highlights aspects of this process. These applications are intended as examples, not necessarily as recommendations. In most cases, the applications require more information than was available, and more importantly, the specific judgments of the leadership of the organization affected. The six specific applications are:

- *Customizing human resource management systems to different operational communities.* Using as examples the Navy and the Marine Corps operational communities, this section describes how a generic human resource management system – in this case, one based on the strategy of military effectiveness – can be tailored to different service needs.
- *Customizing a system to support Force XXI.* This section carries the first example a step further. It illustrates the use of the human resource management strategic choice model to customize a human resource management system to support a change in organizational direction – in this case, a change in operational doctrine under Force XXI. The model results demonstrate that a customized system will generate higher levels of the desired behaviors and outcomes.
- *Innovation.* Today's human resource management system tends to inhibit innovative behavior. The department has recognized the need for more innovative behavior in the future. Using the strategic choice model, this section explores how a human resource management system based on an organizational strategy of military effectiveness can be tailored to increase innovative behavior and yet still maintain its essential character.
- *Moving members between communities with different human resource management systems.* This section summarizes and compares the policies and practices arising from two different organizational strategies – innovation and military effectiveness. It discusses the movement of service members between two such communities and identifies a set of core policies and practices needed to facilitate that flow without disadvantaging the member or imposing prohibitive cost or constraints on the organization.
- *Improving organizational effectiveness through outsourcing.* Outsourcing is defined as having an external vendor provide, on a recurring basis, a service that would normally be performed within the organization. It is rapidly becoming an accepted tool for redefining and reenergizing work within both public

and private sector business organizations. This section addresses the relationship between outsourcing and strategic human resource management. It also argues that outsourcing is an organizational competency that should reside with the human resource management function.

- *Pay for performance.* This section describes how a strategic approach can inform operational decisions – in this case, restructuring the basic pay table to provide a greater reward for performance (promotion) than for longevity.

Customizing to Service Needs

Introduction

This section describes how a generic human resource management system – in this case one based on the strategy of military effectiveness – can be tailored to different service needs. It describes two human resource management systems, one for the Navy and one for the Marine Corps, each based on a strategy of military effectiveness but adjusted to emphasize certain desired organization-specific outcomes. The process presented can be extended to other communities in the Department of the Navy and the other uniformed services. The discussion is based on readily available data and is intended to be illustrative only. The section makes the following points:

- The operational communities of different uniformed services can share the same general organizational strategy – military effectiveness – yet tailor their human resource management system to accommodate different needs, such as different cultures and service-specific requirements.
- Changes in policies and practices designed to achieve particular ends in one service, if applied throughout the uniformed services, could erode the ability to achieve particular desired outcomes in other services.

The generic human resource management system¹ based on an organizational strategy of military effectiveness provides a baseline from which to tailor policies and practices to meet specific needs.

Military Effectiveness in General

An organizational strategy of military effectiveness² supports operational units. An organization that aligns its human resource management system around this strategy would have the following characteristics: a focus on responsiveness and reliability; a culture emphasizing a strong sense of duty and unit cohesion; an emphasis on supporting joint operations; and, an emphasis on supporting diverse forces that can adapt to a wide range of contingencies. Organizational outcomes associated with this strategy include rapid deployability worldwide, superior readiness when not engaged in operational missions, and warfighting capabilities superior to those of any potential foe.

The operational communities of different uniformed services can share the same general organizational strategy . . . yet tailor their human resource management system to accommodate different needs, such as different cultures and service-specific requirements.

¹ Generic human resource management systems are described in Chapter 7.

² Organizational strategies are discussed in Chapter 5.

. . . the Navy and the Marine Corps implement the same human resource management system in different ways to reflect their differences in tradition, temporal needs, image, and culture.

The human resource management system designed for a strategy of military effectiveness would reinforce the following characteristics and behaviors in its members: a high commitment to the goals of the organization, a strict conformity to standards and competence in operational skills – all of which serve to enhance performance quality and performance reliability. This human resource management system would look much like today's system but with more emphasis in areas such as broader job design, multi-source appraisals, and pay increases based on competencies and contribution rather than longevity.

Differences in Approach Between the Navy and the Marine Corps

Today, the Navy and the Marine Corps implement the same human resource management system in different ways to reflect their differences in tradition, temporal needs, image, and culture. However, the respective implementations of the human resource management system is *not* differentiated on the basis of explicit behaviors linked to organizational outcomes.

Military Effectiveness in the Navy Operational Community

It appears the Navy of the future will continue to require a technically oriented officer corps for nuclear propulsion; guided missile development; and command, control, communication, computers and intelligence (C⁴I), etc. For the purposes of this illustration, assume the Navy will continue to develop a majority of its technically oriented officer corps from within by *attracting new members, developing technical skills* in these new naval officers, and then *retaining* the most qualified of the officers for a full career. To accomplish this effectively, the Navy's human resource management system should reinforce these desired institutional outputs. The question then is, "Can the Navy reinforce its desire for a technically oriented officer corps through the design of the human resource management system?"

Military Effectiveness in the Marine Corps

The Marine Corps, on the other hand, might choose to place primary emphasis on *collaboration, commitment, and conformity to norms* rather than technical skills, due primarily to the nature of their predominantly ground-based, hands-on combat operations. A common term usually associated with the Marine Corps, "gung-ho," and the phrase, "every Marine a rifleman," reflect the Marine Corps' cultural emphasis. These terms and phrases, as well as other long-standing traditions and a storied reputation, make a strong case that the Marine Corps strongly values culture – a culture different from the "technical" culture of the Navy. The question then is, "Can the Marine Corps reinforce its desired culture through the design of the human resource management system?"

Tailoring the Generic System to the Operational Communities

The human resource management strategic choice model ³ was used to identify an appropriate set of design dimensions that supported the specific outcomes for the Navy and the Marine Corps operational communities, respectively. First, desired outcomes of interest were identified: six for the Navy operational community and six for the Marine Corps community. Three of these desired outcomes were common to both communities and matched those of the strategy of military effectiveness. Table 22 summarizes the desired outcomes. Figure 23 highlights their locations in the model. The model was used to identify the design changes to the generic human resource management system for military effectiveness that would enhance the likelihood of obtaining the outcomes of interest. Figure 24 summarizes these design choices. Figure 25 summarizes the outcomes.

Table 22 – Desired Outcomes for the Operational Communities

OUTCOME	DEFINITIONS
Common Desired Outcomes	
Performance Quality	<i>Excellence of the product(s) or service(s) produced by the organization.</i>
Performance Reliability	<i>Low variability in product or service quality and quantity. High reliability indicates dependability of a given level of performance quality and quantity.</i>
Responsiveness	<i>Prompt reaction to demands or influences to adjust the type or quality of the organization's product(s) or service(s).</i>
Navy Desired Outcomes of Interest	
Attracting New Members	<i>High ability to recruit (qualified) members.</i>
Skill Development	<i>Emphasis on the attainment of new practical and beneficial abilities.</i>
Retention	<i>High ability to hold or keep desirable members of the organization.</i>
Marine Corps Desired Outcomes of Interest	
Collaboration	<i>Members of the organization willingly work together to achieve organizational goals.</i>
Conformity to Norms	<i>Members of the organization comply with and behave in accordance with organizational modes or customs.</i>
Commitment	<i>Members of the organization are bound (emotionally and financially) to the organization and its goals.</i>

³ The human resource management strategic choice model is discussed in Chapter 6.

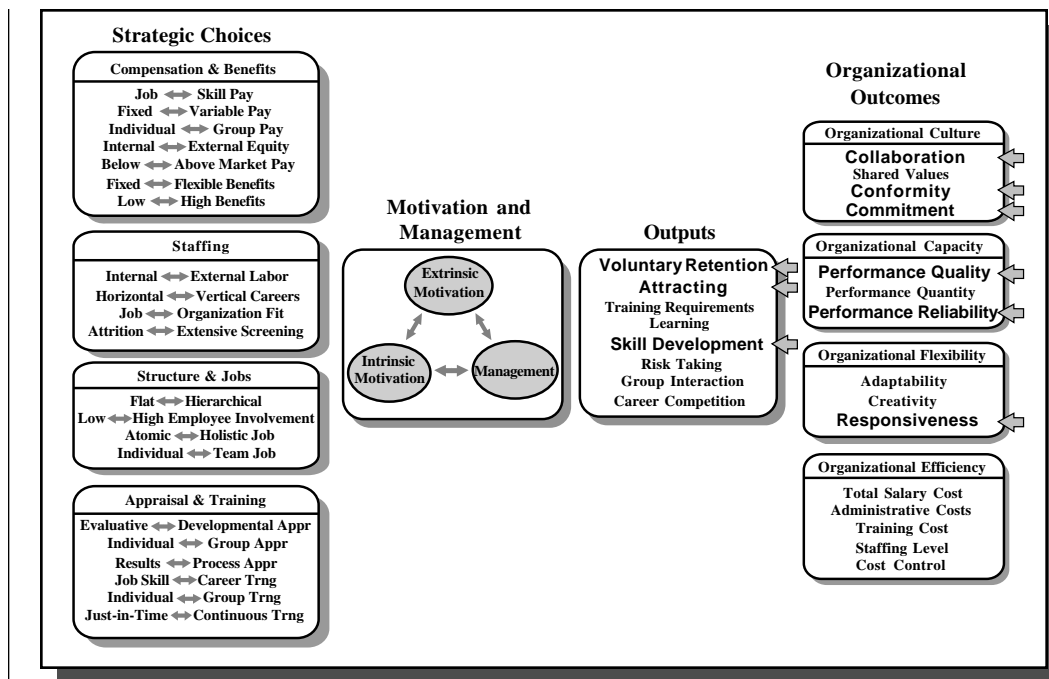


Figure 23 – Human Resource Management Strategic Choice Model (with outputs and outcomes of interest highlighted)

Design Choices for the Navy Operational Officer Community

For the Navy to attract officers who display the ability to learn technical skills and to retain these officers after they are trained, the model suggests the most effective changes in policies and practices would emphasize (1) how officers are compensated and (2) how they are evaluated. For example, the model suggests the use of skill pay,⁴ variable pay, group pay, and flexible benefits. Emphasis on setting pay relative to the market (vice internally) would also reinforce desired results. In the area of performance management, emphasis on developmental and process-oriented appraisals would reinforce desired Navy outcomes. Developmental appraisals would reflect a greater degree of mentoring, coaching and constructive feedback than the generic system for military effectiveness. Performance appraisals would emphasize the techniques, processes and behaviors used to achieve desired results.

⁴ One might argue that the Navy already uses a good deal of skill pay for officers in certain communities such as aviation. However, the various *incentive* pays already in effect – such as Aviation Career Incentive Pay (ACIP) – differ from skill pay. ACIP is a general incentive pay used “[t]o create an incentive for officers to undertake a career in military aviation.” One of the purposes of ACIP was to set the greatest incentive at the point, “which normally coincided with the retention-critical, flight-intensive, period of a career.” Furthermore, those officers entitled to ACIP do not receive increases in pay on acquiring new skills, whether aviation-related or not. Other types of incentive pays used in operational units have similar origins and purposes (primarily to retain certain critical specialties, which is not the same as paying for the acquisition of new skills or how they will be carried out). The skill pay reflected in the model is for acquisition of new skills or higher skill levels, for critical skills that enhance the service member’s value to the service. Skill pay serves to promote and reinforce the idea of continual learning and skill development.

Design Choices for the Marine Corps Officer Community

To achieve the desired Marine Corps outcomes, different policies and practices need to be emphasized. These modifications to the generic military effectiveness organization primarily occur in three areas: training and development, organizational design and staffing. In the area of training, the model suggests emphasis on group (compared to individual) training and development programs, reinforcing collaboration and conformity to norms. In the area of organizational design, the model suggests a steeper organizational structure than the generic system for a military effectiveness strategy with more levels of control to emphasize conformity to norms.⁵ In the staffing area, which includes recruiting, assigning and promotion, the Marine Corps should emphasize an internal labor supply almost exclusively to ensure conformity to norms. Additionally, the Marine Corps would nearly always place an individual in a particular job based on the ability to work in the established culture (organizational fit), to reinforce conformity to norms and collaborative behavior. The Marine Corps would also conduct more extensive initial screening of officer candidates relative to relying on attrition, as compared to the human resource management system for an organization using a generic military effectiveness strategy.

The Effect of Design Choice Changes on Outcomes

So, how would these design choice changes support the desired outcomes for both the Navy and the Marine Corps? Figure 25 shows the model results attained by adjusting the design choices in each case from the baseline generic human resource management system.

For the Navy, *performance quality* increased (compared to the generic military effectiveness system), while *performance reliability* showed a potential decrease, and *responsiveness* remained unchanged. The increase in performance quality resulted from the emphasis placed in the model on skill development and retention. When officers are developed, evaluated, and rewarded for increasing their technical skills, performance quality within the Navy increases. The increased emphasis on learning and informed risk-taking needed to reach the highest levels of skill development causes the potential decline in reliability.

In the case of the Marine Corps, both *performance reliability* and *responsiveness* increased while *performance quality* stayed at the same level as for the generic human resource management system for a strategy of military effectiveness. The increase in performance reliability can be attributed to the emphasis on conformity to norms and commitment. A human resource management system tailored to reinforce cultural outcomes binds members to the organization and its goals and produces a high degree of compliance with the organization's norms and customs, resulting in an increase in performance reliability. The increase in responsiveness compared to the generic human

⁵ The human resource management system for the military effectiveness strategy would include an organizational design that is flatter than today's. Thus, the Marine Corps structure would remain fairly steep, much as it is organized today.

... designing human resource management systems around specific strategies can improve the effectiveness of those organizations by engendering the desired outcomes needed for success.

The model provides a means of identifying the policies and practices having the greatest influence on outcomes, thus, ensuring that policies and practices work together.

resource management system can be explained by the emphasis on group behavior to achieve the organization's goals, thus enabling the organization to react promptly to changes in direction.

Summary

The above discussion highlights the potential desirability of tailoring human resource management systems for different services – even two as closely associated as the Navy and the Marine Corps operational communities. This application also demonstrates that designing human resource management systems around specific strategies can improve the effectiveness of those organizations by engendering the desired outcomes needed for success. The Department of Defense and the uniformed services will need a range of different systems – or more appropriately, a system with greater flexibility to meet a range of different needs.

On the other hand, the requirements for joint operations imply the need for some common policies and practices. The tailored flexibility design provides a framework within which different communities, such as the Navy and the Marine Corps officer operational communities, can establish and refine specific policies and practices based on their particular environment, mission, needs and strategy. In addition, the strategic perspective focuses not just on one or two policies and practices, but on the entire human resource management system. The model provides a means of identifying the policies and practices having the greatest influence on outcomes, thus, ensuring that policies and practices work together.

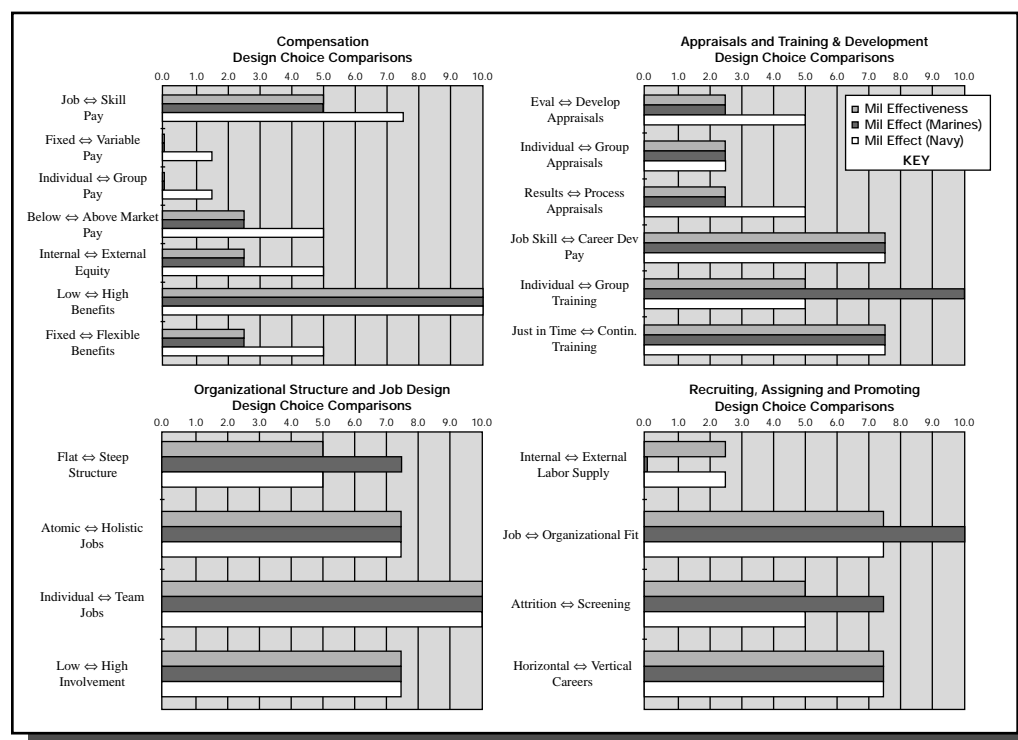


Figure 24 – Design Choices

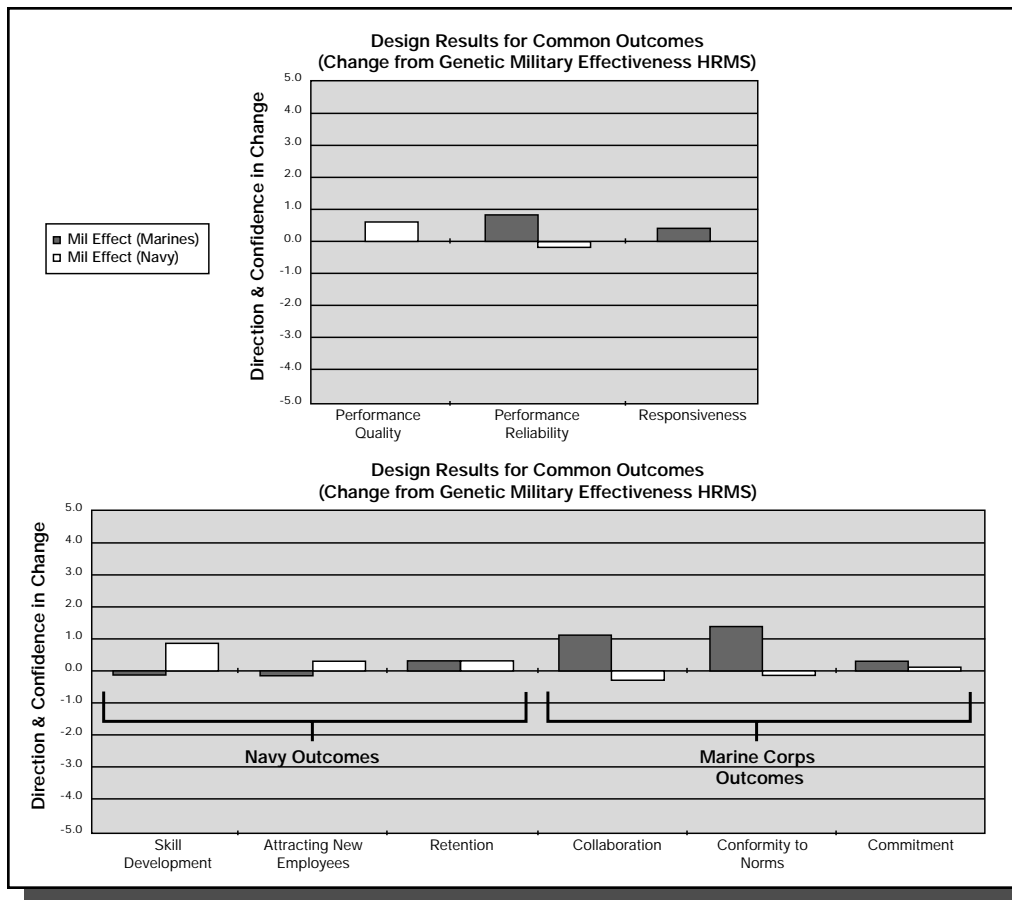


Figure 25 – Outcomes

Customizing a System to Support the Force XXI Culture

This second illustration uses the human resource management strategic choice model to tailor strategic choices to support behaviors and organizational outcomes that the Army suggests are required of its warfighters under Force XXI. The model results demonstrate that a customized system will generate higher levels of the desired behaviors and outcomes than a non-customized system. Modeling excursions demonstrate that a future environment different from today's will require different strategic choices to achieve the desired results for Force XXI.

Methodology

The first step in designing a customized human resource management system was to identify behaviors and organizational outcomes likely to be required by Force XXI. Then, beginning with a generic system designed to support an organizational strategy of military effectiveness (assumed to best support warfighting subunits of today), inputs of the model (strategic choices) were altered to generate higher levels of the

desired outcomes than those achieved by the baseline system. This was an iterative process that continued until acceptable levels of desired outcomes were reached. The resulting set of strategic choices describe a human resource management system customized to support the operational community of Force XXI.

Force XXI Environment and Requirements

Army Training and Doctrine Command documents and Army 2010 Conference presentations describe the Force XXI environment and the behaviors that will be required of individual soldiers.

[T]he character of future military operations can no longer be anticipated merely by analyzing an adversary's stage of economic development; regional or even local powers may possess the capability of employing extremely advanced military technologies. An adversary's actions will require intelligence analysis of fields extending far beyond the traditional battlefield focus. Boundaries within the spectrum of operations will become even more blurred than they are now. Current political and technical trends suggest that, as a matter of course, successful conflict prosecution and termination will depend upon multinational commitment, joint operations, and a high professional tolerance for the new forms of conflict. The days of the all-purpose doctrinal threat template are gone, just as the days of a single-prescription Army doctrine are gone.⁶

And,

Quality soldiers . . . will remain key to success on future battlefields. Soldiers in the twenty-first century will be faced with a wide variety of challenges in preparing for and executing missions . . . They will be trained on selected critical individual tasks in initial entry training to ensure they are immediately deployable upon joining their first unit. They will be familiar with the wide variety of tasks expected of them and the equipment they will use. This concept seeks to empower and develop the untapped potential of our quality soldiers. The battlefield contribution of individual quality soldiers will continue to increase and, indeed, is at the root of knowledge-based operations.⁷

***. . . soldiers of
the future
must possess
attributes of
cognitive ability,
cooperation,
achievement
motivation and
adaptability.***

Consequently, soldiers of the future must be eager to accept responsibility and must understand how their work relates to the work of others. They will have to be able to handle larger tasks than are typical today; to adapt to changed circumstances swiftly; to acquire and retain knowledge and understanding; and to be self-confident, self-starting, and self-sufficient. In sum, soldiers of the future must possess attributes of cognitive ability, cooperation, achievement motivation and adaptability.⁸

⁶ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5, Force XXI Operations: A Concept for the Evolution of Full-Dimensional Operations for the Strategic Army of the Early Twenty-First Century* (Ft. Monroe, VA: TRADOC, August 1994), pp. 16-17.

⁷ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 44.

⁸ Michael G. Rumsey, Chief, Selection and Assignment Research, US Army Research Institute, presentation at The Army 2010 Conference, summarizing attributes identified by a panel of six experts, June 1, 1995.

The Generic System

The characteristics and behaviors generally required in an organization that employs an organizational strategy of military effectiveness include demonstrated competence in operational skills, a high commitment to the goals of the organization and strict conformity to standards. Such an organization also calls for a high degree of cooperative, interdependent behavior and a high tolerance for ambiguity and unpredictability when executing missions. Soldiers within an organization pursuing a military effectiveness strategy need to be physically fit, display physical and moral courage, and demonstrate relatively repetitive and predictable behaviors (train to standards). Therefore, the strategic choices that support an organizational strategy of military effectiveness engender these behaviors and generate desired *organizational outcomes* including adaptability, responsiveness, creativity and performance reliability.

Force XXI Behaviors and Outcomes

The generic system designed to support a “pure” strategy of military effectiveness is customized to the Force XXI environment and requirements outlined above by altering strategic choices so as to emphasize the following behaviors and outcomes:⁹

- Collaboration.
- Responsiveness.
- Creativity.
- Adaptability.
- Reliability.

Because it is not possible to maximize levels of all outcomes simultaneously, the goal of the Force XXI analysis was to generate relatively higher levels of *collaboration, responsiveness, creativity, and adaptability*, while maintaining the level of *reliability* present in the generic system and accepting lower levels of other outcomes. Compared to the generic system, for example, the system designed for Force XXI emphasizes risk-taking and participative decision-making behaviors in order to engender adaptability. Similarly, it relies more on self-managed soldiers, requiring them to assume greater amounts of responsibility.

Resulting Customized System for Force XXI

The following descriptions relate strategic choices (in bold) to intermediate and final outcomes. As noted earlier, the underlying relationships are based on an extensive literature review and are captured explicitly in the model.

Compensation and Benefits

Greater emphasis on **paying for skill** encourages and rewards skill development and learning. A small component of **variable pay (pay-at-risk)** incentivizes performance, to the extent that it does not detract from commitment. For example, the Force XXI

Because it is not possible to maximize levels of all outcomes simultaneously, the goal of the Force XXI analysis was to generate relatively higher levels of collaboration, responsiveness, creativity, and adaptability, while maintaining the level of reliability . . . and accepting lower levels of other outcomes.

⁹ Again, this analysis is illustrative; Army commanders and human resource leaders may choose to emphasize different combinations of behaviors and outcomes in actually designing a system.

Although compensation alone might influence a particular outcome, modifications to the other components of the human resource management system were essential to obtain changes in the complete set of desirable outcomes.

Army could base individual pay increases on a blend of individual and group performance that incentivizes skill development, learning and adaptability. Variable pay then targets needed or emerging skill requirements. As in the generic system, **pay levels** are set slightly below market to control costs without harming retention or attraction of new service members. A strong emphasis on **internal equity** is designed to increase commitment. Finally, **flexible benefits** allow a small component of choice that increases extrinsic non-task motivation, which contributes to retention and helps control costs. The analysis initially sought to obtain the desired outcomes using extrinsic compensation alone. However, no set of compensation policies and practices could come close to achieving the full set of outcomes. Although compensation alone might influence a *particular* outcome, modifications to the other components of the human resource management system were essential to obtain changes in the complete set of desirable outcomes. These additional modifications are described below.

Organizational Structure and Job Design

A moderately **flatter organizational structure** increases adaptability by decreasing organizational layers without diminishing reliability and responsiveness. Also, **jobs are more holistic**. Holistic jobs enhance self-management, responsibility, learning, skill development and collaboration, which in turn lead to increases in responsiveness and adaptability. Job designs require moderately **higher employee involvement** in order to complement holistic jobs without diminishing organizational reliability.

Holistic job designs have potential to benefit warfighting units because of the need for flexible response – “[s]oldiers will be exposed to a wide diversity of operations in different geographical environments, often on short notice.”¹⁰ Holistic job designs set the foundation for soldiers to acquire the various skills, wider range of abilities, and more in-depth knowledge needed to execute more complex, combined tasks associated with the Force XXI environment.

Recruiting, Assigning and Promoting

A somewhat greater reliance on the **external labor market** can help to ensure special or unique skills are available at short notice; however, at the same time, maintaining an organization’s values, norms and level of commitment are important. A more balanced emphasis on both **horizontal and vertical career development** compared to the generic system leads to increased adaptability by providing different or multiple career paths.

For example, Force XXI projects an increased requirement for both number and variety of Army foreign language linguists. The linguist requirement constantly changes, determined primarily by the geographical location in which the Force XXI Army operates. Recruiting from the external labor market *could* provide quicker access to special skills and may be more cost-effective than maintaining a universal linguistic capability. This would be particularly effective if the “external labor market” were, in some form, tied closely to the reserve component. The reserve component might structure its recruiting in this area to benefit from strategic partnerships with non-governmental and governmental organizations that require the same kinds

¹⁰ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 44.

of skills, sharing training and developmental expenses to the benefit of both organizations – and the service member.

Appraisals

A greater balance between **evaluative and developmental appraisals** allows skill sorting and performance feedback while encouraging skill development. **Group or team appraisals** used in conjunction with **variable pay for teams** encourage collaboration and conformity to group norms. Collaboration and conformity, in turn, lead to increased reliability and responsiveness. **Appraisals that equally emphasize results and process** can encourage skill development and learning while maintaining reliability.

The wide diversity of operations associated with Force XXI should encourage soldiers to develop varieties of skills to prepare for unexpected situations. A developmental appraisal can provide leaders a non-threatening means to mentor and coach subordinates. This approach is consistent with the emphasis on holistic job design.

Training and Development

As with the generic system, a moderately high emphasis on **career development training** will tend to attract career-minded recruits as well as reinforce commitment to the organization, which, in turn, improves performance quality. Force XXI requires a strong emphasis on **group training** in order to reinforce collaboration and conformity to group norms, which, in turn, lead to higher levels of reliability and responsiveness. Likewise, Force XXI emphasizes **continuous training**.

Group training, by encouraging and building interaction skills among soldiers, can facilitate the flow of information on the battlefield. Information sharing on the Force XXI battlefield will be vital to fully utilize each participant's capability in an environment where "information technologies result in smaller staffs [and enable both soldiers and units] to perform more functions."¹¹

Figure 26 summarizes and compare strategic choices – the model inputs – for the current system, a generic military effectiveness system, and two versions of the Force XXI system. One is the system just described [labeled "Force XXI (Today)"]; the second is the environmental excursion described next. Figure 27 compares the model's outcomes for these cases. The strategic choices for Force XXI improve the outcomes (compared to a strategy of military effectiveness) in nearly all cases.

Environmental Excursion

This excursion deals with possible changes to the Force XXI environment. The purpose of the excursion is to demonstrate that changes in the environment that affect the way individuals respond to incentives may necessitate redesigning the human resource management system to sustain the same behaviors and outcomes. In this case, an exogenous input to the model is developed from consideration of an alternative future in which technology is paramount and information is ubiquitous. As a result, society places less importance on the need for affiliation, security and (shared) values, and

. . . changes in the environment that affect the way individuals respond to incentives may necessitate redesigning the human resource management system to sustain the same behaviors and outcomes.

¹¹ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 41.

more importance on self-worth. Status is less important; money more so; and individuals prefer work environments associated with a high degree of self-management – they expect it. To reflect changes in the influence of these variables, their weighting in the model was adjusted. For example, because “security” is less important to people in this scenario, its weighting in the model is reduced ten percent. Thus, security has less of an influence on intrinsic motivation than in the environment of the generic system.

The results indicate that if policies and practices are not adjusted to compensate for environmental changes, then desired behaviors such as collaboration, shared values, conformity to norms and commitment decline. This, in turn, may make it more difficult to achieve the outcomes sought for Force XXI. To gain these outcomes, some changes in strategic choices are necessary. In general, emphasis on collaboration, shared values and conformity to norms needs to be increased to offset the effect of the external cultural shift. Changes in each component of the human resource management system need to emphasize a higher degree of group interaction. For example, more reliance on an internal labor supply and the implementation of a more intensive screening process offsets the declining desire of service members to collaborate, as does greater reliance on group appraisals. Another issue is that a greater weighting on self-management leads to higher levels of responsiveness, but lower levels of performance reliability. A way of maintaining performance reliability is to steepen the organizational structure, which controls the degree of self-management by engendering greater *external* management. Figure 26 and Figure 27 summarize the inputs and outcomes associated with this excursion [labeled “Force XXI (Wired)”].

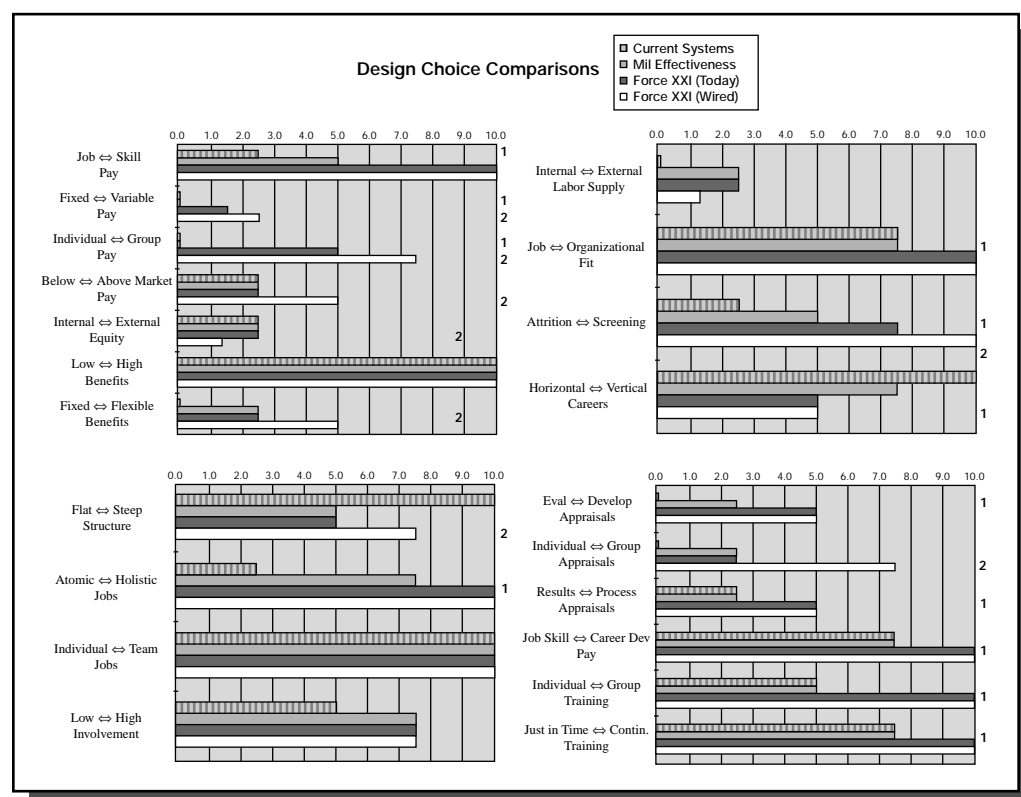


Figure 26 – Force XXI Analysis Inputs

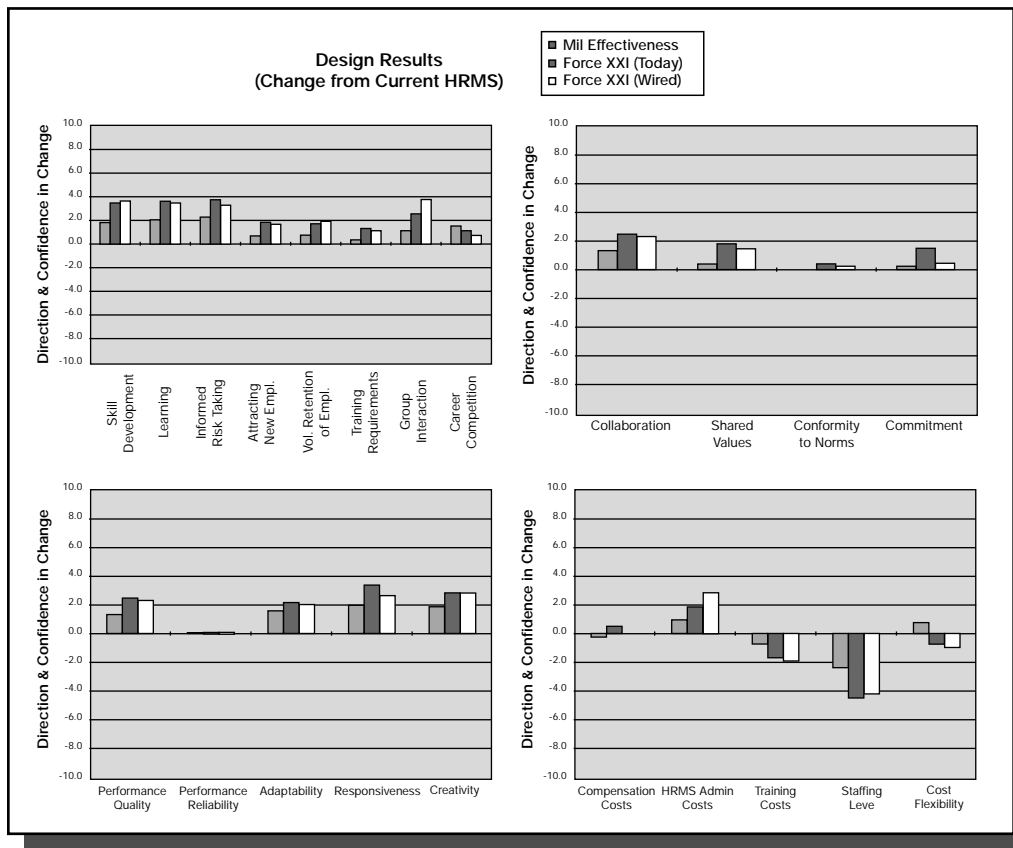


Figure 27 – Force XXI Analysis Outcomes

Compensation-only Excursion

Another excursion was undertaken to determine whether changes to strategic choices relating to compensation *alone* could compensate for the declines in outcome levels associated with the environmental changes modeled in the first excursion. Without complementary changes in other elements of the system, maximizing both group pay and internal equity had only minor effects on adaptability and responsiveness. Thus, the model bears out the contention of this report that the different elements of the human resource management system are interrelated and must be adjusted in concert in order to achieve desired organizational outcomes.

Innovation

Introduction

This section analyzes how any organization – not just those whose human resource management system is based on the organizational strategy of innovation – can elicit more innovative behavior. The section uses, as examples, the acquisition community and operational units. The following are key points:

... different elements of the human resource management system are inter-related and must be adjusted in concert in order to achieve desired organizational outcomes.

. . . the success of the armed forces in the future will . . . hinge on the ability of the individual service member and his or her organization to cope with more sophisticated and complex systems in more rapidly changing environments. This will require emphasis on innovative behaviors.

- Today's human resource management system tends to inhibit innovative behavior; this results, in part, from the organizational culture the human resource management system supports.
- The department has recognized the increased need for innovative behavior in the future. Leadership can only do so much to get innovative behavior. The human resource management system can extend the leader's ability to obtain innovative behavior.
- Innovative behaviors increase significantly for an organization using an organizational strategy of innovation.
- A human resource management system can be tailored to increase innovative behavior even if it is based on an organizational strategy of military effectiveness, and still maintain the organization's essential military character.

Joint Vision 2010 makes clear the relevance of innovation to the future warfighting capabilities of the armed forces: "The judgment, *creativity*, and fortitude of our people will remain the key to success in future joint operations. . . . Confronting the inevitable friction and fog of war against a resourceful and strong minded adversary, the human dimension including *innovative* strategic and operational thinking . . . will be essential to achieve decisive results."¹² The Army's Force XXI doctrine also describes the increasingly sophisticated equipment and the more diverse set of tasks to be performed in a rapidly changing environment. This will require the Army "to *empower* and develop the untapped potential of . . . soldiers . . . [and] the battlefield contribution of individual . . . soldiers will continue to increase."¹³

These and other predictions strongly suggest the success of the armed forces in the future will, more than ever before, hinge on the ability of the individual service member and his or her organization to cope with more sophisticated and complex systems in more rapidly changing environments. This will require emphasis on innovative behaviors.

Innovation is a term that may mean different things to different people. *Webster's* defines innovate as "introducing new methods" and innovation as "changing the way of doing things."¹⁴ The above paragraphs suggest "creativity" as well as "adaptability." Operational units may want adaptability but less creativity. A product development team may want both. In designing human resource management systems, identifying the particular aspect of innovation desired or the mix of aspects is important because the *specific* behaviors needed may vary and require different policies and practices to obtain them. These differences are highlighted in the discussion below.

Organizations that choose an organizational strategy of innovation are fundamentally different, culturally, than ones that choose other strategies. These organizations typically have a high need for creativity; they often encourage risk-taking and are willing to tolerate the consequential "mistakes" resulting from this type of behavior;

¹² U.S. Joint Chiefs of Staff, *Joint Vision 2010*, pp. 27-28 (emphasis added).

¹³ U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 44 (emphasis added).

¹⁴ *Webster's New World Dictionary*, Third College Edition (New York, NY: Webster's New World, 1988), p. 697.

and, they have a longer-term focus. Ultimately, they are more interested in the quality of the result generated than in the process to achieve it. The high level of quality of the output in an innovative organization is usually a result of a high degree of cooperative and coordinated behavior among highly skilled, creative individuals. Leadership is essential to the success of any organization, including an innovative one, but leaders must be supported by internal systems (including human resource management) that operate in concert with organizational objectives.

Some suggest the current human resource management system for the uniformed services does not encourage risk or innovation. The current environment, at least in the Army, as described by a recent command assessment conducted the Army Research Institute, is a “zero-defects environment.”¹⁵ This is an environment where taking risks can potentially cause failure; and failure, even in the pursuit of excellence, can be deadly to careers. If this environment remains intact in the future, the performance management system may be motivating behavior that is increasingly inconsistent with *operational* requirements. The challenge facing the uniformed services is to align human resource management policies and practices so as to generate the desired types of innovative behavior while retaining the essential military character of particular parts of the organization. This calls for significant cultural shifts.

The challenge . . . is to . . . generate the desired types of innovative behavior while retaining the essential military character of particular parts of the organization.

Innovation in the Acquisition Community

The Need for Innovation

Significant changes are under way in the acquisition community. These changes suggest the acquisition community needs an organizational strategy and a human resource management system different than those of other military communities. For example, Secretary of the Air Force Sheila Widnall in a recent speech about acquisition reforms described the changes to the Air Force acquisition processes this way: “Today’s changing technologies require a more responsive, agile system. They require a streamlined approach, focused on efficiency and increased trust. . . . We intend to sweep away the shelves of old regulations and directives. Sweep away the paperwork and the adversarial relationships.” She also identified the consequences of not changing: “This reform movement is not a ‘nice to have’ – it is a pass-fail item. These reforms must succeed. . . . If we fail these reforms, then we fail in our efforts to build the capabilities we need to execute our missions.”¹⁶

Recent legislation has directed the acquisition community to consider possible changes to elements of the *civilian* human resource management system (as well as to other systems) with the intent of changing how employees are rewarded. Specifically, section 5001(b) of title 10, United States Code, as amended by the Federal Acquisition

¹⁵ Harry Summer, Jr., “The ‘Zero-defects’ Command Defects,” *Washington Times*, June 21, 1996, p. A18.

¹⁶ Honorable Sheila E. Widnall, Secretary of the Air Force, “Today’s Air Force: Dealing with Hard Realities,” Remarks at the Durand Lectureship in Public Policy, Washington, DC, May 1, 1996, quoted in *Air Force Update, Your Air Force Today*, May 1996, pp. 2-3.

Streamlining Act states “the Secretary of Defense shall review the incentives and personnel actions available to the Secretary of Defense for encouraging excellence in the management of defense acquisition programs and provide an enhanced system of *incentives* to facilitate the achievement of goals” (emphasis added). These enhanced incentives will relate pay to performance in achieving cost, performance and schedule goals; people who are affected by this incentive plan will be evaluated and promoted based on achieving these goals. To comply with this authority, the Department of Defense is seeking additional legislation to authorize the payment of incentives to military personnel, as well. This proposed legislation would authorize the department to conduct several demonstration programs using incentive pay to manage the performance of acquisition “program teams” that include government civilian and military personnel and contractor employees.

These initiatives are significant, but they focus on the component parts of the human resource management system. They provide important tools for achieving improved performance, schedule and cost goals; but as is argued throughout this report, they are unlikely to achieve the magnitude of change in behaviors that would occur if the issue were approached strategically, with an eye toward reviewing and aligning all the elements of the human resource management system to effect more fundamental changes in behavior.

A System to Support the Strategy of Innovation

By referring to the generic human resource management system based on a “pure” organizational strategy of innovation described earlier in the report, an organization can formulate policies and practices needed to elicit the characteristics and behaviors for this strategy to be successful. The generic system provides a baseline from which to customize the policies and practices to implement an organizational strategy of innovation in the specific context in which the organization finds itself. The characteristics and behaviors generally sought by an organizational strategy of innovation include a high tolerance of ambiguity and unpredictability; a relatively high level of cooperative, interdependent behavior; a longer-term focus; and a high degree of creativity, concern for results (as well as processes), experimentation and risk-taking.

This strategy might be appropriate for an organization such as the acquisition community if mission accomplishment is directly linked to the creative talents of highly skilled engineers and scientists, emphasis is on long-term results, and experimenting with new ways of operating are commonplace (and occasional “mistakes” contribute to organizational learning and are considered a natural and necessary part of the process of achieving innovative outcomes). Behaviors needed in this type of environment include self-management, informed risk-taking, group interaction, adaptability, responsiveness and creativity. The generic human resource management system designed for a “pure” organizational strategy of innovation would enhance organizational performance along these lines.¹⁷

¹⁷ Compared to the organizational performance resulting from a human resource management system designed using an organizational strategy of military effectiveness.

More collaboration occurs in innovative organizations as a result of increased accession screening and holistic job design. Team-based pay and team-based performance evaluations also contribute to increased collaborative behavior. Performance quality is enhanced by emphasis on skill development, which contributes, in turn, to risk-taking, and consequently, learning. Flatter structures and horizontal career development lead to greater adaptability. Increased skill development and pay at or above market levels increases the ability to attract individuals.

The emphasis on skill development and collaboration also contributes to responsiveness. Increased self-management generates more risk-taking.

Performance reliability, considered a critical outcome of an operational unit, decreases in an innovative organization as a result of less conformity and external management and greater risk-taking. Commitment to the organization decreases because less financial and job security results from placing more pay at-risk and relying on more external hiring.

Figure 28 graphically compares the design choices and organizational outcomes associated with human resource management systems based on a strategy of innovation with those of a system based on a strategy of military effectiveness. The graph suggests that the outcomes associated with these two organizational strategies are significantly different. Policies and programs related to innovation create greater collaboration, performance quality, organizational adaptability, organizational responsiveness and creativity.

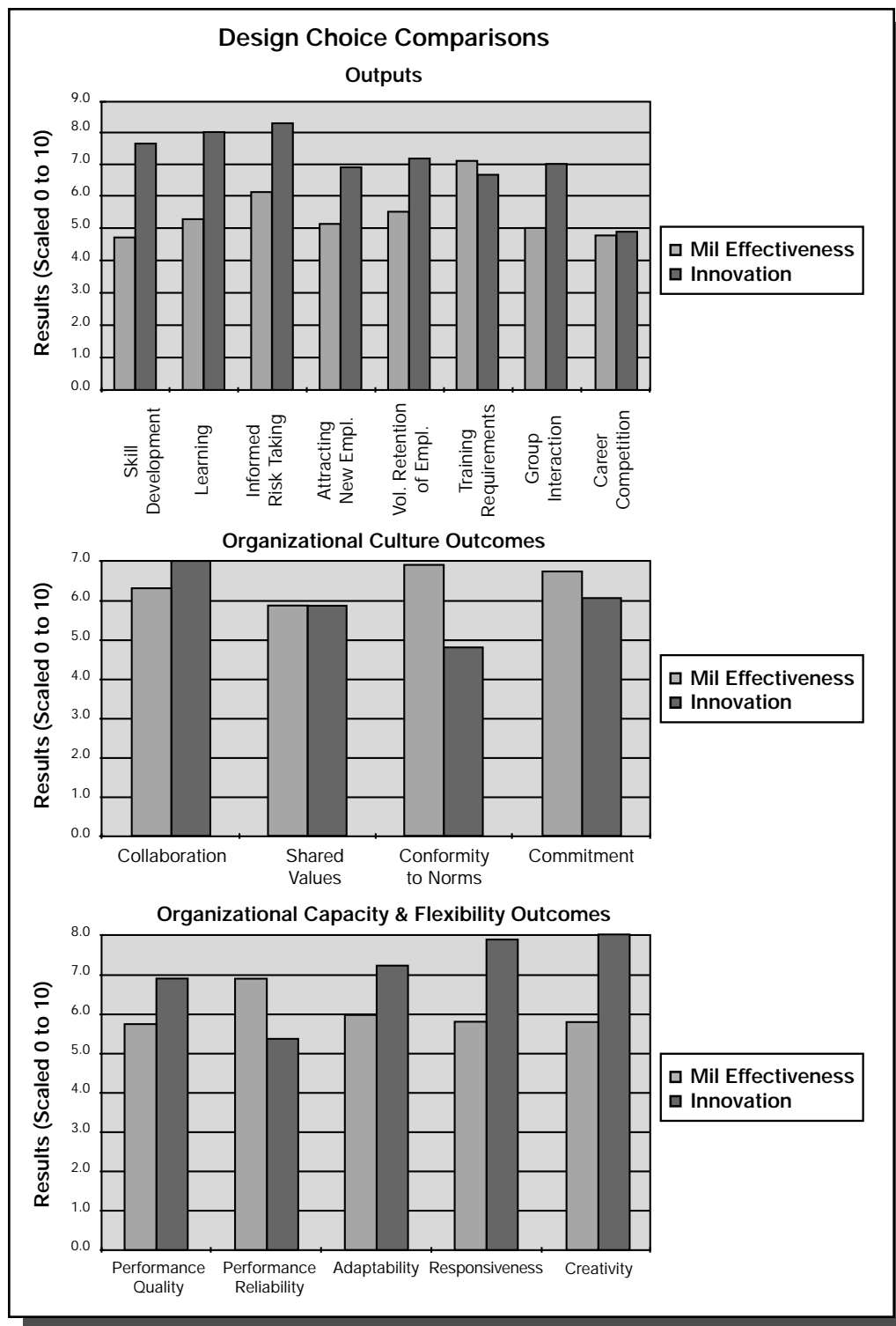


Figure 28 – Comparison of Innovation and Military Effectiveness Strategies

Innovative Behavior in the Operational Community

The Need for Innovation

As is evident from many sources (particularly such studies as Joint Vision 2010, Force XXI and Air Force 2025), innovation will be important for all organizations, including operational units. This does not mean an *organizational strategy* of innovation is appropriate for all organizations, particularly those organizations where “mistakes” can have catastrophic consequences or loss of life. For example, performance reliability is adversely affected under a human resource management system designed to enhance innovation. Also, conformity to standards, considered fundamental to military discipline and command and control, declines. Consequently, although operational units in some contexts will be expected to exhibit innovative behavior, an organizational strategy of innovation applied to that community would motivate unacceptable behaviors and outcomes; it would (as it is intended to do) change the fundamental character of the organization.

However, the policies and practices that support an organizational strategy other than innovation can be modified to retain the most important outcomes while enhancing outcomes related to innovation. Tailoring the human resource management system in this way can allow the implementation of programs to encourage innovative behaviors without compromising the fundamental warrior competencies or character of operational units. This tailoring might best apply to units such as the 9th Infantry Division at Fort Lewis in the past and “battle labs” used by the Army, Marine Corps and Air Force to test operational concepts for the future.

Tailoring a System to Support Innovation

The human resource management strategic choice model ¹⁸ facilitates the analysis of how this tailoring might be accomplished. By modifying the inputs (strategic choices along the dimensions ¹⁹ that characterize a human resource management system) individually and in groups, changes in outcomes can be observed. When the outcomes attained are consistent with those desired, the inputs (strategic choices) are translated into specific policies and practices. Starting with the set of inputs for a “pure” organizational strategy of military effectiveness, the inputs were varied to maintain performance quality and reliability while increasing creative, responsive and adaptive behaviors. ²⁰

Behaviors critical to effective military operations, specifically conformity to norms and performance reliability, are negatively affected by many of the policies and practices that enhance innovative behaviors within an organization. More skill development can overcome this effect and increase both performance reliability and innovative behaviors; therefore, additional training is crucial in this situation.

. . . although operational units in some contexts will be expected to exhibit innovative behavior, an organizational strategy of innovation applied to that community would motivate unacceptable behaviors and outcomes . . .

Behaviors critical to effective military operations, specifically conformity to norms and performance reliability, are negatively affected by many of the policies and practices that enhance innovative behaviors within an organization.

¹⁸ The model is discussed in detail in Chapter 6.

¹⁹ Dimensions refer to the fundamental characteristics of a human resource management system – for example, the amount of emphasis placed on fixed vs. variable pay or on group vs. individual incentives. The report describes 44 dimensions; the model contains 21.

²⁰ When innovation or innovative behaviors are discussed in the modeling process, increases in creativity, responsiveness and adaptability were the behavioral outcomes desired.

Increasing external management to monitor the accomplishment of strict standards of performance increases reliability but negatively effects self-management, individual risk-taking, and the overall responsiveness and adaptability of the unit. In other words, these policies and practices cause individuals, generally, to behave in less innovative ways.

To the extent that organizational structures can be made flatter and jobs designed holistically without impact on the goals of military effectiveness units (performance quality and reliability), innovation will increase.

Finally, variable pay (pay-at-risk) is critical to the performance of innovative organizations. Specifically, variable pay (particularly when tied to the application of competencies) contributes to increasing the skills and knowledge of members of the organization which, in turn, increases both performance reliability and quality. But, placing too much pay at risk negatively impacts a member's commitment to the organization, which, in turn, affects performance quality. Generally, variable pay also undermines conformity which undermines performance reliability. Using team-based variable pay along with individual variable pay tends to mitigate this effect. The extensive use of variable pay would probably undermine conformity and commitment to such an extent to be unacceptable to any unit with a military effectiveness strategy; but using it minimally could be tolerable particularly in "battle lab"-type organizations.

If the development of new tactics or operational concepts is the primary objective of a battle lab, less performance reliability may be acceptable during the period of time that the unit is designated as a lab – and elements of the human resource management system might be tailored to the particular needs of the situation while the unit is in that environment. However, if performance reliability (and conformity, etc.) are allowed to atrophy to obtain the benefits of innovative behavior in the near term, care must be exercised to return the organization – and its human resource management system – to a high state of performance reliability once it returns to an operational status.

Summary

The human resource management system for an organizational strategy of innovation appears to be a good fit for the acquisition community, especially as current legislation is moving the community in this direction. Other organizations with similar characteristics should be investigated. In addition, operational units, such as a "battle lab" and units described in Force XXI, may benefit from a military effectiveness strategy tailored for increased innovative behavior.

Moving Members Between Human Resource Management Systems

One of the characteristics of the current, largely one-size-fits-all human resource management system is the ability to assign members between career fields, communities, and potentially, services. To maintain flexibility, especially during wartime contingencies, the uniformed services value the capability to reassign members from one

place to another. During peacetime, the uniformed services encourage some flow between career fields to expand the knowledge and experience of future leaders and to exert operational influence on staff and support functions. If strategic subunits were to employ different human resource management systems in the future, could this crossflow and flexibility be maintained?

Focusing on each of the components of a human resource management system, this section summarizes and compares the policies and practices arising from two different organizational strategies. The first example is an organization focused on an organizational strategy of innovation, represented by the acquisition community. The second example is an organization focused on an organizational strategy of military effectiveness, represented by the operational community.²¹ It discusses the movement of service members between two such communities and the common set of core policies and practices needed to facilitate that flow without disadvantaging the member or imposing prohibitive costs or constraints on the organization. The policies and practices for the acquisition community, the policies and practices for the operational community, and observations regarding how these two human resource management systems interface are described for each major component – organizational design, compensation, staffing, performance management and development. A figure at the end of each description summarizes the discussion.

The acquisition community was chosen as an example of a group likely to select a strategy of innovation because of recent legislation and comments made by acquisition leaders. Chapter 87 of title 10, United States Code, as modified by the Defense Acquisition Workforce Improvement Act, authorizes the department to test flexibilities designed to improve the quality, professionalism and management of the acquisition work force. A Process Action Team is investigating potential changes to the personnel system to help carry out this act. Its charter elaborates such goals for a new personnel system as “managing, rather than avoiding risk,” “pay for performance, measured in terms of contribution to acquisition mission and objectives,” “performance as a member of an integrated team,” “attracting high-quality people to the acquisition work force;” and “retaining the best and brightest.”

In a 1996 speech, the Under Secretary of Defense for Acquisition and Technology, Dr. Paul G. Kaminski said,

The issue is really cultural. To make a cultural change, we need the appropriate incentives to adjust the behavior of our acquisition work force. Mark Twain describes, “The cat, having once sat upon a hot stove lid, will not sit upon a hot stove lid again. The problem is that neither will that cat sit on a cold stove lid.” That is the problem we have overall in our acquisition system. We have become so risk-averse that we end up spending billions to make sure we do not lose millions. We have set

If strategic subunits were to employ different human resource management systems in the future, could this crossflow and flexibility be maintained?

²¹ Commonality is assumed within each of these two larger communities. However, internal variations exist within each of these major communities. For example, within the operational community, different sub-communities, such as the Marine Corps operational sub-community and the Navy aviation, surface warfare and submarine operation sub-communities, each share the same general organizational strategy – military effectiveness – yet emphasize different organizational outcomes and, therefore, may require somewhat different human resource strategic choices, policies and practices. Therefore, over time, each of these operational sub-communities may refine their choices, policies and practices.

up a structure that discourages risk taking – it settles for very, very conservative performance at all levels. We are moving now to try to adjust that culture. . . . To make a cultural change, we are putting the appropriate incentives in place to adjust the behavior of our acquisition work force.²²

In view of the above, the organizational strategy of innovation would be appropriate for the acquisition community. Such a strategy seeks people with a high need for creativity and, therefore, often encourages prudent risk-taking and tolerates the consequential “mistakes” resulting from this type of behavior. It requires a longer-term focus, and ultimately focuses more on the quality of the results generated than on the process to achieve it. High-quality output in such an organization results from a high degree of cooperative and coordinated team behavior among highly skilled, creative individuals.

The organizational strategy of military effectiveness is designed specifically for application to the operational communities within the uniformed services. This strategy calls for members who are in top physical condition, able to train to standard (demonstrate relatively repetitive and predictable behaviors), and able to display both physical and moral courage. It supports a high degree of commitment to the goals of the organization, a strict conformity to standards, and competence in operational skills, all of which serve to enhance performance quality and performance reliability. In addition, it supports a high tolerance for ambiguity and a high degree of cooperative, interdependent behavior, reinforcing organizational responsiveness.

Organizational Design

The *acquisition community* needs to adapt quickly to changing technological, fiscal and design requirements and is more open to the idea of rewarding risk-taking in order to achieve innovation. The organization employs a flat structure to minimize bureaucracy and enhance communication throughout the organization. It organizes into teams and, within teams, it emphasizes the roles of team members, based on their specific expertise and abilities (as opposed to defined tasks). That is, the abilities of the incumbents to contribute to the team objectives, rather than rank or grade, define roles within teams. The organization redesigns jobs to focus on specific responsibilities, and members perform a variety of duties and functions.

In contrast, though the *operational community* must also remain responsive to its changing environment, the need for high-performance reliability and quality takes priority over quick adaptation. This organization requires a larger number of, sometimes redundant, layers in the chain of command; it remains hierarchical. Rapid advancements in communication technology may flatten this organization, allowing fewer levels of command and broader spans of control; consequently, in the future, jobs might be designed more broadly, requiring members to perform a greater variety of functions. Roles rather than tasks define the work in this team-based organization.

²² Honorable Paul G. Kaminski, Undersecretary of Defense for Acquisition and Technology, prepared remarks to the Huntsville, Alabama Chamber of Commerce, January 17, 1996.

The different structures of the two organizations are unlikely to have adverse impacts on service members moving between organizations, primarily because both are team-based with broadly defined jobs. Thoroughly screening service members assigned from operational units to the acquisition community minimizes problems associated with moving from a very hierarchical organization to one requiring more self-management and autonomous individual behavior. Figure 29 summarizes the above discussion.

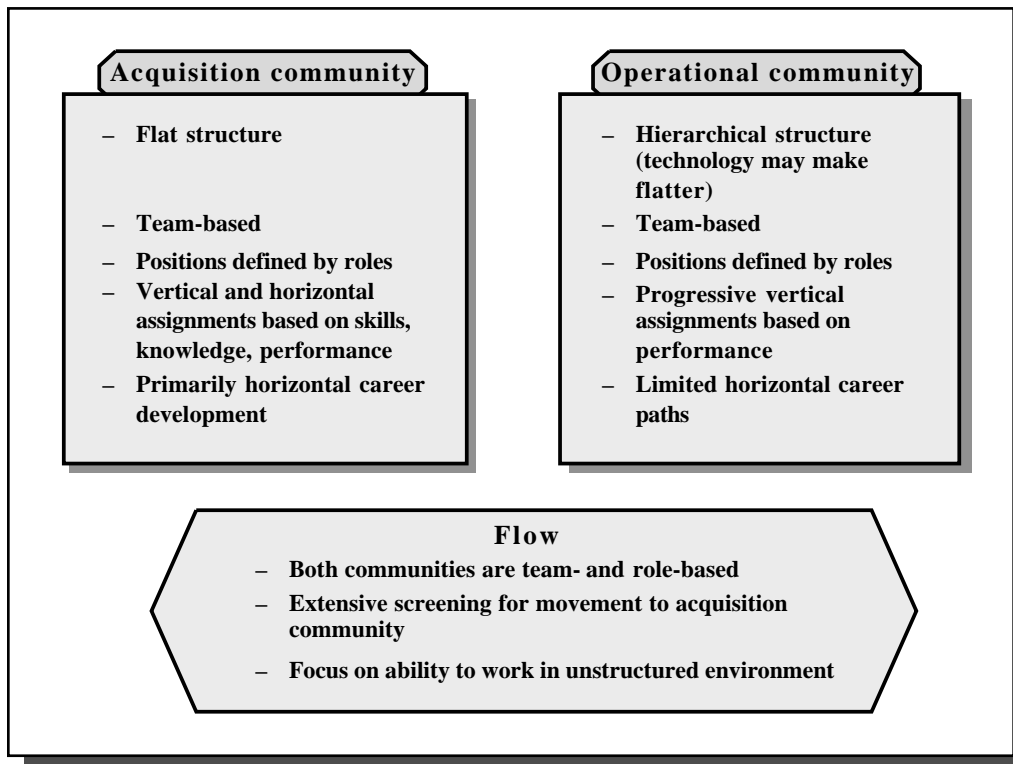


Figure 29 – Tailored Flexibility: Organizational Design

Compensation

To recruit and retain the highly skilled people needed to perform in an *acquisition organization*, rewards must reflect contributions. The emphases on roles and on breadth of skills and knowledge as well as the need for a direct line-of-sight between rewards and performance require fewer, broader pay bands. This demands a direct link between pay and the performance management process. An acquisition organization determines the number of “pay bands” and the width needed to accommodate its goals, and it establishes criteria for awarding pay increases. Variable pay is essential and is widely used in acquisition organizations to motivate and sustain high performance. Variable pay is tied to team output and rewards longer-term team and individual performance. Incentives also take the form of monetary or nonmonetary spot

rewards that recognize specific outstanding behaviors or performance. The acquisition community determines the use, type, amount and award authority for incentive pays. Flexible benefit programs meet the personal needs of each member.

To reinforce commitment to the organization and promote cohesion, the *operational community* emphasizes internal equity much more than external equity; it clearly defines pay levels and broadly communicate them to all service members. Pay predominately takes the form of fixed (base) pay. The annual increase in the fixed component of pay differentiates between substandard and extraordinary performers, with the vast majority of service members receiving the average increase. The operational organizations carefully target incentive pay (similar to special and incentive pays or bonuses provided in the current system) to specific shortages or critical skills. It also use incentives to attract or reward service members who perform in onerous environments such as hazardous duty or sea duty. Pay for performance *per se* (namely, variable pay) does not exist in the operational community because it might compromise the egalitarian nature of the system. Very comprehensive benefit programs help bridge the pay gap but offer very little choice among benefits because the organization views its members as having similar needs and intends to “take care of its own.”

For relatively short assignments to the acquisition community (for example, to provide on-site consultation during critical test phases), the service member might remain under the human resource management system of the operational community. For longer tours (for example, to actively engage in the initial design phase for a major new weapon system), the service member falls under the human resource management system of the acquisition community – to motivate the behaviors desired in that community.

Although a common pay table applies to all organizations throughout the uniformed services, the acquisition community employs wide “bands” within the pay table (compared to the operational community) to meet the specific needs of that community. However, when a service member moves from an operational organization to an acquisition organization, the service member continues to be paid the same fixed pay as immediately before the assignment. While in the acquisition organization, the member receives annual increases based on the policies of the acquisition community (to encourage the behaviors desired in the acquisition community). On assignment back to the operational community, the service member continues to be paid the same fixed pay (including any increases acquired while in the acquisition organization). Members are also eligible for the variable pay programs available in the organization to which they are temporarily assigned – but only while assigned to that organization (again, to encourage the behaviors desired in the acquisition community). Figure 30 summarizes the above discussion.

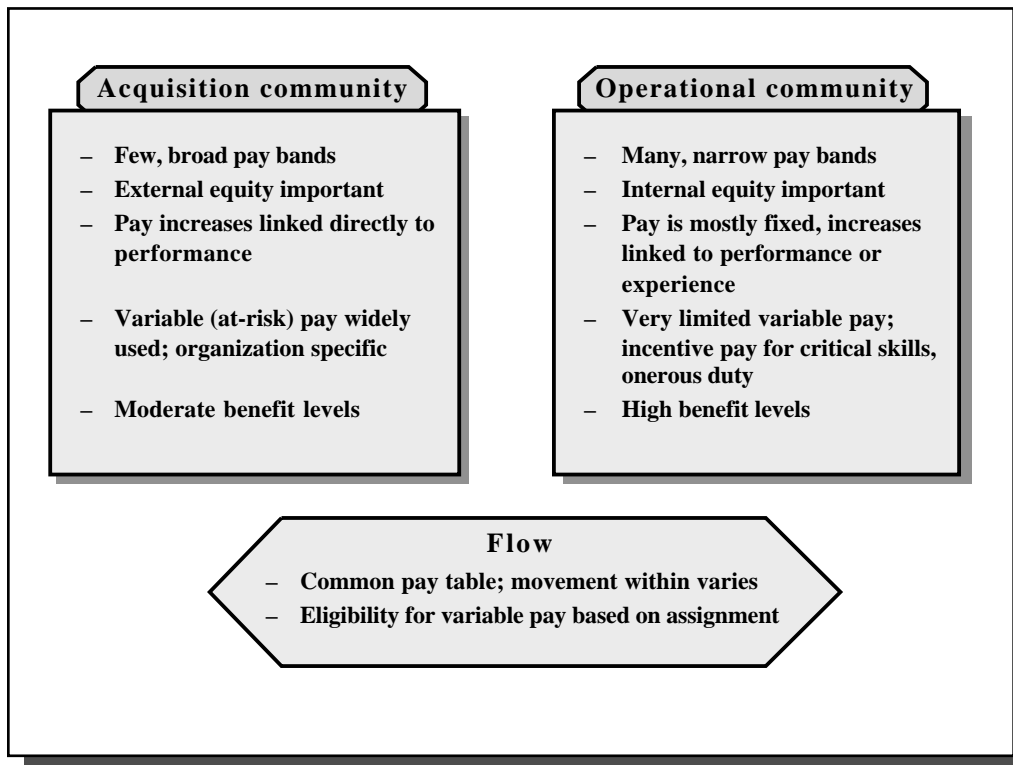


Figure 30 – Tailored Flexibility: Compensation

Staffing

The *acquisition community* is composed of professionals, with very specific knowledge in acquisition processes and their relation to military operations and/or technical, scientific areas. Since this knowledge is a skill specific to members of this community, the organization tends to fill positions from internal sources. Hiring limited numbers of members with specific technical or scientific knowledge from outside the organization gives access to rapidly changing knowledge bases. Bringing expertise into the active forces from the reserves may provide the major and most attractive pool from which to draw these “external hires,” because using reservists increases the likelihood of a good organizational fit. Enhanced succession planning (identifying and developing future leaders in the acquisition community) plus developing strategic partnerships with technology-based private and public organizations benefits both organizations and service members. The acquisition organization recruits from operational units those individuals with significant technical knowledge gained from field operations. It evaluates other criteria, such as the ability to work collaboratively and within teams, prior to placement, to ensure individuals have the behavioral characteristics and competencies to effectively perform their role.

The *operational community* almost always fills positions internally, too. In this community, however, it is not due to specific knowledge requirements (though these requirements do exist). Rather, operational organizations place greater emphasis on how well service members fit with the desired organizational behaviors – in other words, because of the overriding importance of maintaining military culture. It limits external fills to only very specialized skills; strategic alliances with other organizations through the reserve component improve the ability to obtain the specialized skills *and* the requisite military culture and values.

The *acquisition community* promotes service members based on long-term performance as reflected in performance assessments. To ensure broad organizational equity and maintain the advantages of economies of scale, central promotion boards composed of representatives from the organizations of eligible members make promotion decisions. Assignments within the acquisition community focus on career development, based on the service member's particular skills, knowledge and performance. Organizational need determines vertical or horizontal assignments. The acquisition organization offers very broad, lateral career paths that allow for horizontal career development. Generally, members of innovative organizations, because of their unique capabilities, remain in the community for most of their careers.

The *operational community* also assigns individuals to develop the skills of the service members; in a hierarchical organization, this generally means a vertical move. Broader, more horizontal career paths may evolve if the organization chooses to design work around roles rather than tasks.

Because the skill and knowledge requirements of the acquisition community are specific to that community, few service members pursuing a career in acquisition are ever assigned to the operational community. This is largely the case today, particularly after the ten-year point in a member's career. On the other hand, because of the requirement for operational experience in the development of weapon systems, the acquisition community does require a number of assignments from the operational community for tours of various lengths. As noted above, selection screening is a major consideration. The operational community continues to consider service members for promotion while they serve in the acquisition organization. The acquisition community establishes jobs the operational community considers career-enhancing. It offers assignments that are highly valued by operational community members and promotion boards. The very best service members aggressively compete for the assignments – and the rewards. Figure 31 summarizes the above discussion.

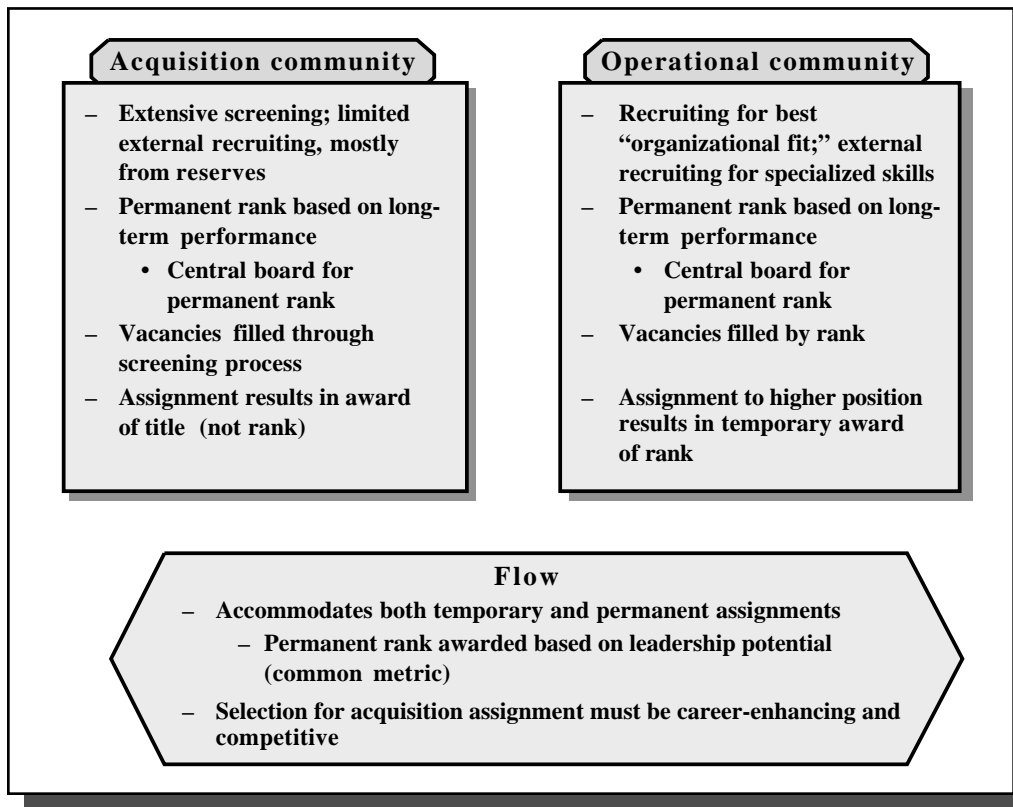


Figure 31 – Tailored Flexibility: Staffing

Performance Management

In the *acquisition community*, the performance management system evaluates team members based, in part, on their contributions to team results and, in part, on how well the team accomplishes the overall goals and objectives of the organization. Team members evaluate each other’s ability to work cooperatively on the team; team leaders evaluate team performance. Multi-source performance evaluations underscore the importance of collaboration and improve the overall accuracy of the evaluation. Performance management in this community is largely developmental, and feedback is a critical component. Team members and leaders provide feedback formally and, more often, informally. This community widely uses incentive programs based on individual and team performance (see above), thus requiring a portion of the performance management system to be devoted specifically to supporting the way work is done in the community.

In the *operational community*, the performance management system evaluates service members’ contributions to the goals and objectives of the organization; though routine inspections and evaluations give indications of team performance, they are not part of the individual appraisal system. The primary purpose of the performance management system is evaluation for promotion; it focuses more on evaluation than development. Single-source performance evaluations support the hierarchical organizational structure. The system also includes formal feedback mechanisms.

Although aspects of the performance management system for each community differ, both are results-oriented and focus on accomplishing organizational goals. Service members flow from the operational community to the acquisition community and back without adverse effect. A common core of metrics focused on leadership characteristics and behaviors forms the basis for standardized comparisons of service members across the communities. This common core is the focus for promotion throughout the entire organization; however, it might not serve as the basis for development or incentive awards, which are based on other parts of the performance management system that vary between the two communities. Figure 32 summarizes the above discussion.

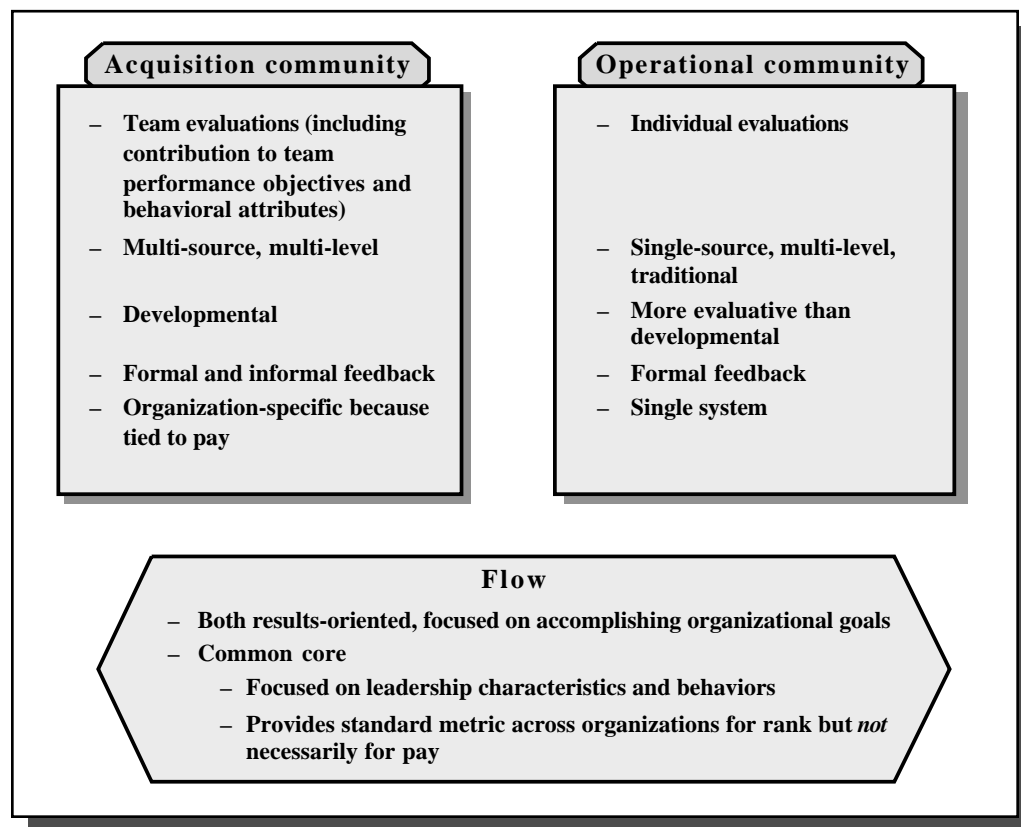


Figure 32 – Tailored Flexibility: Performance Management

Development

The *acquisition community* invests a great deal of time and resources to recruit, retain and continually develop highly skilled members. It expects service members to perform a variety of functions in their roles and provides the necessary training. Learning diversifies experience, skills and knowledge, fostering the creativity and innovation so necessary in this community; consequently, the acquisition organization encourages members to gain knowledge and affords many opportunities to do so. Focused on results-oriented outcomes, it values behavioral skills that enable

members to work effectively in a team environment. Sources external to the organization conduct much of the training, which enables the organization to capitalize on the changing nature of skills, knowledge, environment, and information affecting this community.

The *operational community* also invests substantial resources in training and developing service members and operational teams. When operational units are not executing missions, they are learning organizations, so training has a direct impact on performance reliability – one of the primary outcomes of the operational unit.

Three types of training predominate: socialization, skill training (including unit and physical training), and leadership training. Given the unique nature of military skills and culture, operational units rely primarily on internal sources to conduct training. Training and development give these individuals a common vocabulary and ability to share a similar world view. This is especially important in light of the emphasis on joint operations, where translation across service cultures must be instantaneous and error-free.

The emphasis on training in both communities complements the crossflow of service members between acquisition and operational communities. Training programs ensure service members quickly gain the skills and knowledge necessary to become proficient. Figure 33 summarizes the above discussion.

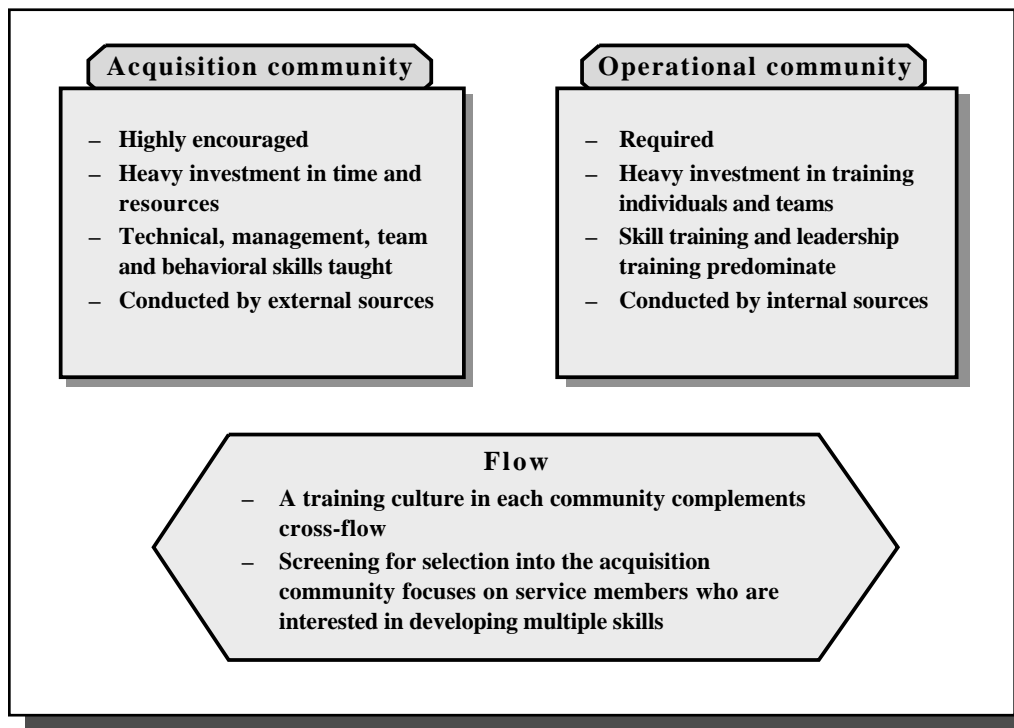


Figure 33 – Tailored Flexibility: Development

Different sets of policies and practices will only work if they are explained in terms of what they are trying to accomplish and if the expectations of the "way we do business around here" changes to reflect this new perspective.

. . . outsourcing is related to the kinds of decisions strategic human resource management addresses.

Summary

Although the policies and practices in each of these communities have a number of similarities, they also exhibit significant differences. These differences, however, should not substantially restrict movement between the communities. The major change required will be a change in the "mindset" of service members. Different sets of policies and practices will only work if they are explained in terms of what they are trying to accomplish and if the expectations of the "way we do business around here" changes to reflect this new perspective. A strategic approach to human resource management provides the context needed to provide this explanation.

Improving Organizational Effectiveness Through Outsourcing

Introduction

Outsourcing is defined as "having an external vendor provide, on a recurring basis, a service that would normally be performed within the organization."²³ It is rapidly becoming an accepted leadership tool for redefining and reenergizing work within both public and private sector business organizations. The Department of Defense is exploring this issue as a way to shift some of the work the military is now doing to the private sector. Although many of the activities considered for outsourcing have been conducted predominately by federal civilians, a substantial number of military positions could potentially be affected. One estimate places the number of military personnel at over 350,000 and includes such commercially available activities as health services, weapons maintenance, installation and facility services, and education and training.²⁴

Outsourcing is attracting an increasing amount of attention from private and public sector businesses as a key contributor toward sustaining a competitive advantage. This raises some important questions for the department: Can outsourcing improve focus on critical capabilities in the department and subsequently improve organizational performance? What should the role of outsourcing be in the department? Does human resource management have a role in outsourcing? How should the department identify activities that are appropriate for outsourcing?

This section is not intended to articulate an argument for or against outsourcing. Rather the intent is, first, to suggest that outsourcing is related to the kinds of decisions strategic human resource management addresses. Consequently, the department can benefit from bringing that perspective to bear. The second goal is to present a process to enhance the scope and efficiency of the outsourcing decisions.

²³ Philip J. Harkins, Stephen M. Brown and Russell Sullivan, "Shining New Light on a Growing Trend," *HR Magazine*, December 1995, p. 75.

²⁴ Loren B. Thompson, "Defense Management Trends: A Revolution in Organizational Behavior," presentation to the 8th QRM, February 16, 1996 (Alexis de Tocqueville Institution, Arlington, VA).

Reasons Organizations Consider Outsourcing

Outsourcing is a decision about how to accomplish work that is important to the organization. The work, although it may not be part of a critical capability of the organization, relates to the ability of the organization to achieve its strategic intent. The work is often a service performed for members of the organization that enables them to perform their assigned jobs or roles more efficiently. Organizations that make successful outsourcing decisions have a clear set of goals and objectives in mind from the beginning. The following reasons to consider outsourcing form the basis for defining appropriate goals and objectives.

Improve Organizational Focus

Outsourcing allows the organization to focus on strategic issues while leaving some of the operational details to an outside expert. The improvement in focus allows the organization to expend the energies of its people on core competencies or core processes.

Access to World-class Capabilities

Organizations often consider outsourcing because they do not possess the specialized knowledge or management systems necessary to carry out the activity effectively. Outsourcing can bring experienced people with extensive capabilities to bear on the task, including specialized industry expertise gained through working with many similar issues. Outsourcing releases the organization from the requirement to devote time, money and personnel to build a non-core competency from the ground up. This requires the organization to have a complete understanding of what it would take to provide the capability internally to serve as a benchmark when considering a potential outside provider.

Accelerate Reengineering Benefits

Outsourcing is often a by-product of process reengineering. An activity may be found to be a weak link in the process chain. Outsourcing the activity to a more technically competent provider is one way of improving the overall operation of the process under consideration.

Share Risks

Outsourcing is a vehicle for sharing business risks. These risks involve changing demands, uncertain technologies, research and development, etc. An organization may choose outsourcing to become more flexible and dynamic – better able to meet emerging opportunities. Often, if outsourcing is used solely to lower cost, the effort will fail.²⁵

Organizations that make successful outsourcing decisions have a clear set of goals and objectives in mind from the beginning.

²⁵ The Outsourcing Institute conducted a study involving 1200 companies in 1991 and found that the driving reasons for most companies to consider strategic outsourcing were not for lowering costs or for product improvement. Wendell Jones, "Outsourcing: What Every Executive Should Know," *The Source*, Vol. 3, No. 1 (Spring 1996), pp. 1-2.

Ideally, when an organization is considering outsourcing, operational and human resource management leaders work together to identify the most effective solution.

Free Resources for Other Purposes

Outsourcing permits an organization to redirect some of its resources from non-core activities toward core activities, providing a greater return on those resources. In addition, privatization often results in a cash infusion from selling equipment, facilities and licenses to the prospective vendor.

Control Operating Costs

An important reason for outsourcing from a *tactical* or *short-term* perspective is to control operating costs. These savings are usually realized through the outside provider's cost structure, which may be the result of greater economies of scale or some other advantage based on specialization.

The Strategic Context for Making the Outsourcing Decision

A strategic process for determining what activities should be outsourced involves consideration of vertical and horizontal integration in the organization. In addition, an organization's core competencies figures prominently in this decision.

Ideally, when an organization is considering outsourcing, operational and human resource management leaders work together to identify the most effective solution. These leaders must have a clear understanding of the organization's strategic intent and the goals and objectives of outsourcing, as well as the benefits and consequences of outsourcing. Frank Casale, Executive Director of the Outsourcing Institute, states, "[O]utsourcing fundamentally challenges today's executives to rethink the vertically integrated firm in favor of a more flexible organization based on core competencies and mutually beneficial, longer-term outside relationship."²⁶

As discussed in this report, the corporate level uses vertical integration to focus the subunits of the organization to its strategic intent and horizontal integration to capitalize on the relationships among different subunits. Vertical integration is the most relevant to the issue of outsourcing.

Vertical integration requires defining the critical assets and capabilities that should reside within the organization. It further provides insight into activities that might be considered for transfer to an external vendor. Hax and Majluf²⁷ describe three areas of interest that should be at the heart of the outsourcing decision:

1. Defining the boundaries an organization should establish over its generic activities on the value chain²⁸ (a question of "make versus buy" or "integrate versus contract").
2. Establishing the relationship of the organization with its constituencies outside its boundaries, primarily its suppliers, distributors, and customers.

²⁶ Frank Casale, "Outsourcing," *Fortune*, October 16, 1995, unpaginated special advertising section.

²⁷ Hax and Majluf, Ch. 14.

²⁸ Value chain is the set of activities that enable an organization to deliver a product or service that meets the needs of its customers.

3. Identifying the circumstances under which those boundaries and relationships should be changed to enhance and protect the organization's competitive advantage.

The first area addresses core competencies. An organization must identify what it does, or wants to do, better than any other organization; these are its core competencies. In addition, activities directly related to the core competencies need to be identified as well. These activities are critical to the core competencies and may need to be separated from those activities considered for outsourcing. Once the core competencies and critical activities are identified, all other activities can be considered for outsourcing.

The second area requires establishing the relationship and boundaries with potential outsourcing vendors. Because outsourced activities will continue to be part of the organization's value chain, the organization must ensure the vendors understand the culture of the uniformed services and can meet its unique requirements.

The Role for Human Resource Management in Outsourcing

Effective leadership of the outsourcing process is necessary to ensure that the external contractors meet current and future requirements for the uniformed services. The outsourcing relationship needs to be one of a partnership in creating a "world-class" capability. The uniformed services need to foster and cultivate new values with the outsourcing providers. The human resource management function, in its role as a strategic partner, can provide leadership for outsourcing as a possible tool to support more effective organizational performance in the uniformed services. This subsection discusses the potential role of human resource management in outsourcing.

Human Resource Management as Outsourcing Leader

A survey of major businesses, taken at a recent outsourcing conference, identified the most important factors for successful outsourcing:²⁹

- A clear understanding of the organization's goals and objectives.
- A strategic vision and plan that includes human resource management input.
- Senior executive and stakeholder support and involvement.
- Careful attention to personnel issues.
- Open communication with affected individuals and groups.
- Financial justification.
- The use of outside experts or consultants for an independent assessment of organizational competencies.

As the above results suggest, the human resource management function can make a significant contribution as the leader of the process for outsourcing activities in all

Because outsourced activities will continue to be part of the organization's value chain, the organization must ensure the vendors understand the culture . . .

The human resource management function, in its role as a strategic partner, can provide leadership for outsourcing as a possible tool to support more effective organizational performance . . .

²⁹ Harkins, Brown and Sullivan, p. 75.

*Outsourcing is
about managing
results, not
resources.*

parts of the organization. According to Harkins and Colling,³⁰ it is the logical choice to assume responsibility for the outsourcing activities of the entire organization. It operates within the organization to attract, retain and motivate the labor required to carry out the work required. And outsourcing is another method for carrying out the work. From the organization's perspective, the prime consideration is the ability to carry out the necessary tasks in the most effective manner. The question the human resource management function must address is whether the organization itself can accomplish this better using its own human resources or if another organization has the edge. The human resource management function is uniquely qualified to make that assessment.

Following is a list of actions that the human resource management function can take to become the outsourcing leader in an organization. These action steps reflect the competencies needed to support a human resource management outsourcing role:³¹

- Develop tools that allow managers to create mental models of where the organization is going – with or without outsourcing.
- Develop benchmarking tools.
- Develop other assessment instruments (customers, cultural, etc.).
- Establish a strategic model to determine what should be outsourced and why.
- Establish clear and practical guidelines on how to outsource.
- Establish a clear process for assessing, measuring, and evaluating outsourcing.
- Offer and provide consulting services to the rest of the organization.

Outsourcing is about managing results, not resources. To contribute significantly to the process of outsourcing, the human resource management function must develop new competencies, ones that do not generally reside in the organization today. The outsourcing relationship needs to be one of a partnership in creating a “world-class” capability. Someone in the organization must overcome adversarial relationships often extant with external providers and communicate the culture and long-term needs of the uniformed services. A new style of management will be needed to foster and cultivate the new sets of values between customer and provider. The human resource management function should take on this challenge and identify and develop competencies needed to make outsourcing a core competency of the uniformed services.

This is one side of the role the human resource management function can play in outsourcing. There is another role, related more closely to the context of this report.

Some activities considered for outsourcing may be retained in the organization because they are critical to the organization's core competencies or for other reasons (for example, contain positions necessary to a rotation base). Evaluation, however,

³⁰ Philip J. Harkins and Dennis Colling, “Defining HR's Leadership Role: Taking Charge of Outsourcing,” *Conference Proceedings from the International Conference and Exposition on Strategic Outsourcing and HR: Leveraging the Business Impact of Human Resources*. Lexington, MA: Linkage Incorporated, March 1996, p. 202.

³¹ Harkins and Colling, p. 203.

should not stop with this determination. An activity not outsourced could add greater value to the organization if it adopted an organizational strategy consistent with the strategic intent of the activity within the organization.

For example, one of the reasons, perhaps the major (although not necessarily the best) reason, an activity is considered for outsourcing is to reduce cost. If the activity has the appropriate characteristics,³² an organizational strategy of least cost could enhance organizational performance. On the other hand, such a strategy may not be appropriate for the activity. If that is the case, other organizational strategies should be investigated (for example, customer service, quality, innovation). That these activities were considered for outsourcing at all strongly suggests that they operate with enough autonomy to consider them for their own strategy.³³ Although the individual activities are likely to be relatively small, the aggregation of all activities of a particular type could be significant. In any case, the full process recommended in this report can be brought to bear on this effort.

It might be argued that the decision to outsource or to keep a particular function within the department should be based on first reconfiguring its systems (including its human resource management system) to carry out its strategy most effectively. Identifying the strategy of the activity (and how it supports the overall strategy of the organization that it supports) is critical to an effective outsourcing decision; however, if the activity is not a core competency, or closely related to a core competency, or necessary to the organization for some other reason, it should be considered for outsourcing. Trying to match or exceed the performance of another organization would probably use resources inefficiently. The goal of outsourcing is to find other organizations that have developed the core competencies to accomplish the strategy most effectively, thereby avoiding the expense of generating these competencies internally. On the other hand, if the activity is to remain in the department, there is an obligation to make it as effective as possible.

Internal Review

All functions must conduct an internal review to free themselves of activities that do not contribute to the organization's desired outcomes and, thereby, to focus their efforts clearly on attaining the strategic intent of the organization. The first step for the human resource management function in assuming leadership of the outsourcing process is an internal review of its own activities.

Edward Lawler stated in his keynote address to the Strategic Outsourcing and Human Resources Conference³⁴ in March 1996, "if your human resource management is mostly administrative, you are at great risk of disappearing (being outsourced, downsized, reengineered . . .). [Human resource management] does not need to do

The goal of outsourcing is to find other organizations that have developed the core competencies to accomplish the strategy most effectively, thereby avoiding the expense of generating these competencies internally.

³² Characteristics of organizations that would best use the least-cost strategy to design their human resource management system include those with a generally undifferentiated (or commodity-like) product or service; stable environment, tasks, requirements; semiskilled at lower levels and, in many cases, can be learned by on-the-job-training; tight fiscal and management controls; minimization of overhead; pursuit of economies of scale; and a focus on reducing the unit cost of output per person

³³ After all, they were considered autonomous enough to be conducted by some other organization.

³⁴ Edward E. Lawler III, "Strategic Human Resources Management: An Idea Whose Time Has Come," keynote speech presented at the Strategic Outsourcing and HR Conference, March 26-27, 1996, New Orleans, LA.

these things in-house; and if they are allowed to continue to do them, they must do them at drastically reduced costs.” The human resource management department’s major contribution to organizational performance is as a business partner focused on organizational outcomes. This aspect of the human resource management function would *not* be a candidate for outsourcing because it is integral to the success of the organization. However, the routine day-to-day operations traditionally provided might become a candidate for outsourcing. The private sector is clearly moving in this direction.

So, the human resource management function must look inward to determine if it can get more organizational performance by outsourcing some of its activities; but, as recommended above, core activities need to be retained inside the organization. Figure 34 presents a framework that can assist the function in considering whether activities should be outsourced.³⁵

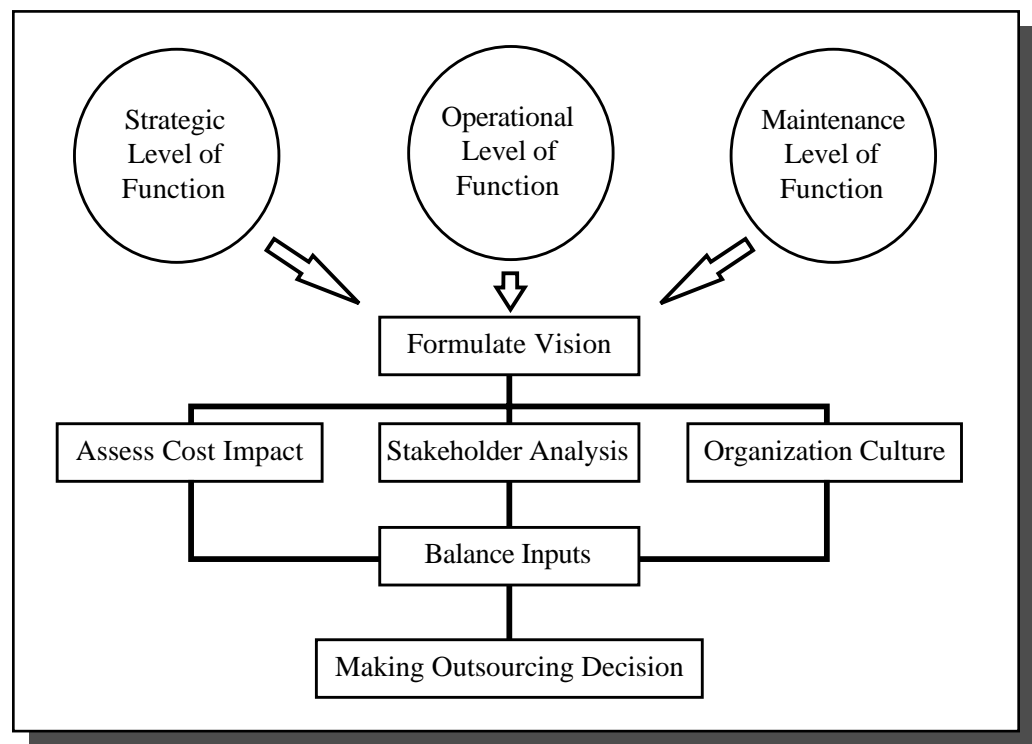


Figure 34 – Defining Human Resource’s Leadership Role: Taking Charge of Outsourcing

First, place each activity that the function carries out into one of three categories: strategic – planning and thinking that underlie the activity; operational – the performance of the activity; and maintenance – the files and records keeping. Next, formulate a vision for the function and ask the following types of questions: How does the human resource management function help create and sustain competitive advantage for the organization? How does the human resource management function serve the organization’s overall business needs, strategic objectives and core competencies? What is the operating philosophy of the human resource management function? Then consider each activity separately in terms of the following steps:

³⁵ Harkins, Brown and Sullivan, p. 78.

- A. Assess the cost impact of outsourcing the operation of each activity.
 - 1. How much does it cost now to operate that activity in-house?
 - 2. What will it cost in the future?
 - 3. How much would an external vendor charge to operate that aspect of the activity?
 - 4. How much will they charge in the future?
- B. Assess the customer impact of outsourcing the operation of the activity.
 - 1. Can an external vendor operate the activity better?
 - 2. Does or will the vendor have access to superior technology?
 - 3. Will the vendor be able to provide faster turnaround?
 - 4. Will the vendor offer more options for customization?
 - 5. Does the vendor offer any other advantages in terms of quality or effectiveness?
- C. Assess the organizational aspect of outsourcing the operation of the activity.
 - 1. Does the organizational aspect of the activity bear any relation to the organization's core competencies?
 - 2. Does it bear any relation to the organization's core values?

The last step in the process is the most critical and often the most difficult. Against a backdrop of the vision, balance the effect – on costs, customers and the organization – of outsourcing the operation of that activity. There are times when all variables – cost, customers and organization – will point in the same direction. At other time, they may point in different directions, requiring a focus on balancing the factors. At this point, one has asked the right questions about the outsourcing decision.

Summary

Outsourcing has strategic implications for the uniformed services; not just a means of saving money, it can build competitive advantage and increase the capability of the organization. Some part of the organization must develop the competencies to make outsourcing decisions effectively. In fact, the nature of the defense business requires that outsourcing decisions receive perhaps even greater consideration than they would in other organizations. The human resource management function is ideally suited to this task.

Pay for Performance

This section applies the human resource management strategic choice model to an issue in which there has been a great deal of interest expressed over the last several years: restructuring the uniformed services basic pay table to strengthen the signal to service members that performance is rewarded.

Background

The President chartered the 8th Quadrennial Review of Military Compensation, in part, to “recommend ways to reengineer those elements of the military compensation system that support readiness and quality of life initiatives” and to “expedite the adoption of new approaches that put people first and allow them to work better.” The Secretary of Defense, in support of the President, has committed to support the “full pay raises allowed by law” through the FYDP, as well as to examine the possible benefits of “redistributing” pay raises.

The 7th Quadrennial Review of Military Compensation proposed a fundamental shift in philosophy when it recommended a basic pay table that moves toward “pay for performance.” As the 7th Quadrennial Review of Military Compensation observed, basic pay is (currently) the principal vehicle for recognizing performance, where performance is reflected in promotion to the next higher pay grade. Increases in the basic pay table stem from two sources: from years of service (longevity), which are unrelated to performance, and from promotion. *Ad hoc* changes to the basic pay table over the past 45 years have distorted the relative importance of these increases so that longevity weighs more heavily than promotion. As a result, the distinction between pay rates of different grades at similar years of service is, in some cases, too small to provide clear reward for promotion. Therefore, restructuring the basic pay table to emphasize promotion over longevity as the primary reason for pay increases will send the positive signal to every service member that his or her contributions are valued and rewarded.

Proposed Restructured Basic Pay Table

The proposed pay table would keep pay *levels* at any point in a member’s career approximately where they are today; however the *reasons* for pay increases throughout a career would shift from longevity toward promotion. Cumulative pay over a member’s career would remain the same or slightly higher for average or faster promotees in all services. Because overall changes would be marginal, measurable retention effects would be very small, but in the right direction³⁶ – the table would tend to improve retention among better performing members.

The proposed pay table would give more weight to promotion than the current pay table; less to longevity. Further, it would ensure that the size of pay increases for promotion are progressively higher from grade to grade, while longevity increases are smaller than increases for promotion and more uniform in size than in the current table. Over the course of a military career, a service member would receive a greater proportion of increases in basic pay from promotion than from longevity. For example, the proposed pay table would shift the proportion of increases in basic pay resulting from promotion from approximately 50 percent in the current enlisted pay table (with the other 50 percent resulting from longevity) to about 57 percent in the proposed pay

³⁶ A recent run of the DoD CAPM (Compensation, Accessions, and Personnel Management) Model validated this finding. Results are on the margin because an ACOL (Annualized Cost of Leaving) based model looks only at the total pay level and not the source of pay increases.

table (with the other 43 percent resulting from longevity). The corresponding change in the officer table would be from 37 percent of the increase resulting from promotion (and 63 percent from longevity) in the current pay table to about 53 percent resulting from promotion (and 47 percent from longevity) in the proposed table. In the process, the proposed pay table would decrease instances of pay inversions – cases where a lower-ranking member receives higher basic pay than a higher-ranking member.³⁷

Analysis of Pay for Performance

Pay for performance can be provided in two forms: merit pay and pay-at-risk. The major distinguishing characteristic is the permanency of the increase. In the first category, the increase for performance, once received, becomes a permanent part of the individual's fixed pay (in the case of service members, a permanent part of basic pay). Merit pay is usually received in the form of higher weekly, biweekly or monthly pay rates. In the second category, the increase for performance is based on the performance during the observed period, usually against a measurable objective, and it must be "re-earned" during the next observed period. Pay-at-risk is usually paid as a bonus, separate from fixed pay. The recommendations for restructuring the basic pay table fall into the first category.

Slightly different behaviors result from these two practices. The human resource management strategic choice model was used to evaluate the impacts of each of these two practices and then to assess whether changing *other* policies and practices could obtain more of the behaviors desired from pay for performance.

Figure 35 summarizes the inputs used for this analysis. Each cluster of bars indicates the strategic choices made along each of the dimensions of a human resource management system included in the model. The upper bar in each cluster reflects the input for the current system; the second bar reflects the current system with merit pay [note that only the second cluster – the dimension characterizing the relative emphasis on longevity and performance pay (merit pay) – shows a change from the current system in the second bar, denoted by a "1" in the margin]; the third bar reflects the current system with pay-at-risk [note only the third cluster – the dimension characterizing the relative emphasis on fixed and variable pay (pay-at-risk) – shows a change from the current system in the third bar, denoted by a "2" in the margin]; and the fourth bar reflects the set of integrated policies and practices that would increase the desired behaviors and decrease the undesirable outcomes from pay for performance (changes from the current system are denoted by a "3" in the margin). For example, the first cluster in the upper left-hand chart indicates that pay for the job receives substantially more emphasis in the current system, as well as for the systems that emphasize only merit pay or pay-at-risk. However, to obtain more of the desired outcomes and to offset the undesirable outcomes from pay for performance alone, the integrated (military effectiveness) system increases the emphasis on pay for skills.

³⁷ Detailed analysis and discussions of the rationale behind the proposed restructured pay table are in the 7th Quadrennial Review of Military Compensation's report and in Major Topical Summary 2 – Basic Pay. These documents explain the care that was taken in restructuring each segment of the pay table (Officer, Enlisted, Prior-Enlisted, Warrant Officer, and General/Flag Officer) to maintain or improve important linkages that ensure the tables continue to support current service personnel management needs.

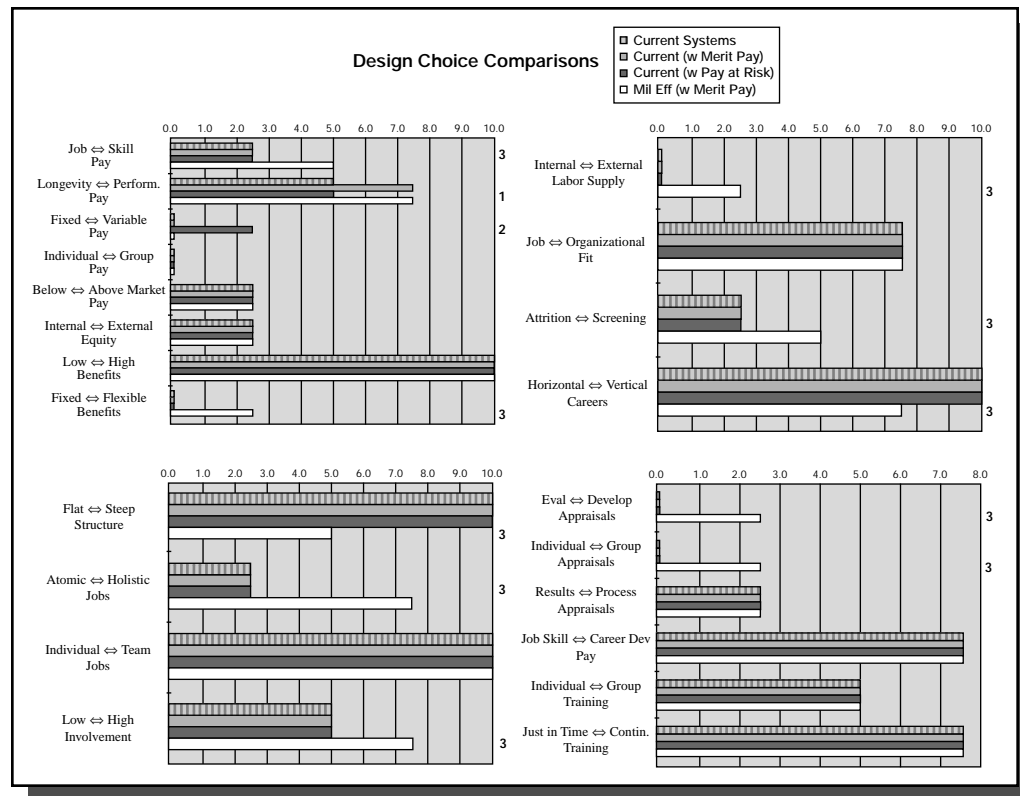


Figure 35 – Pay for Performance Inputs

Figure 36 displays selected outcomes. Each cluster of bars represents the impact of the three changes discussed above, compared to the current system.³⁸ The first bar in each cluster reflects the outcomes of the current system with merit pay, the second bar reflects the outcomes of the current system with pay-at-risk, and the third bar reflects the outcomes of the integrated set of policies and practices that would increase the desired behaviors and decrease the undesirable outcomes from pay for performance.

For a change that would *only* increase the emphasis on merit pay relative to longevity (as the proposal to restructure the pay table would do), the model suggests gains in organizational performance quality, reliability of output, responsiveness and creativity (resulting from increased skill development, learning, self-management, and conformity to desired behavioral norms). Long-term compensation costs should decrease (those non-selected for promotion receive smaller longevity increases), and there is potential to slightly reduce staffing levels because of more self-management. Additionally, there should be an increase in cost flexibility because the organization can control promotion selection (and, therefore, pay for performance increases) compared to longevity increases. All of these changes are in the desired direction, although they would probably be small for the restructuring being considered.

³⁸ The height of the bars indicates the direction of change and the degree of confidence that the change will occur. It does not estimate the size of the effect.

The model also suggests pay for performance (merit pay) would result in changes in certain areas that may not be desirable (for example, decreases in collaboration and commitment).³⁹

Although it may have a positive impact, the effect of changing only one practice in the entire human resource management system (in this case, the emphasis on pay for performance) will be limited. The system is composed of a number of highly interdependent relationships. The model is designed to replicate the effect of these intertwined relationships. If only one practice is changed, the other parts of the human resource management system continue to generate the same behaviors as before the change, inhibiting, ameliorating or offsetting the effect of the single change.

However, if desired behaviors are identified, policies and practices can be aligned to enhance the likelihood that these behaviors will be manifested as a result of the change and that unintended consequences can be avoided. The model suggests the positive impact of pay for performance can be magnified and the adverse impacts offset when other elements of the human resource management system are changed to enhance its effectiveness – for example, greater emphasis on horizontal (versus vertical) careers, developmental (versus evaluative) appraisals, inclusion of group (versus individual) performance in appraisals, and jobs designed to span entire processes (versus individual, specialized jobs).

Although it may have a positive impact, the effect of changing only one practice in the entire human resource management system . . . will be limited.

³⁹ For a change that would *only* increase the emphasis on pay-at-risk relative to longevity, the model suggests a less positive picture, although again the effects are very slight. In particular, shared values conformity to norms, commitment and performance reliability would decrease slightly, and responsiveness and creativity would not increase as much as under merit pay.

... restructuring the pay table is an initial ... step toward a human resource management system that would markedly improve the effectiveness of the uniformed services.

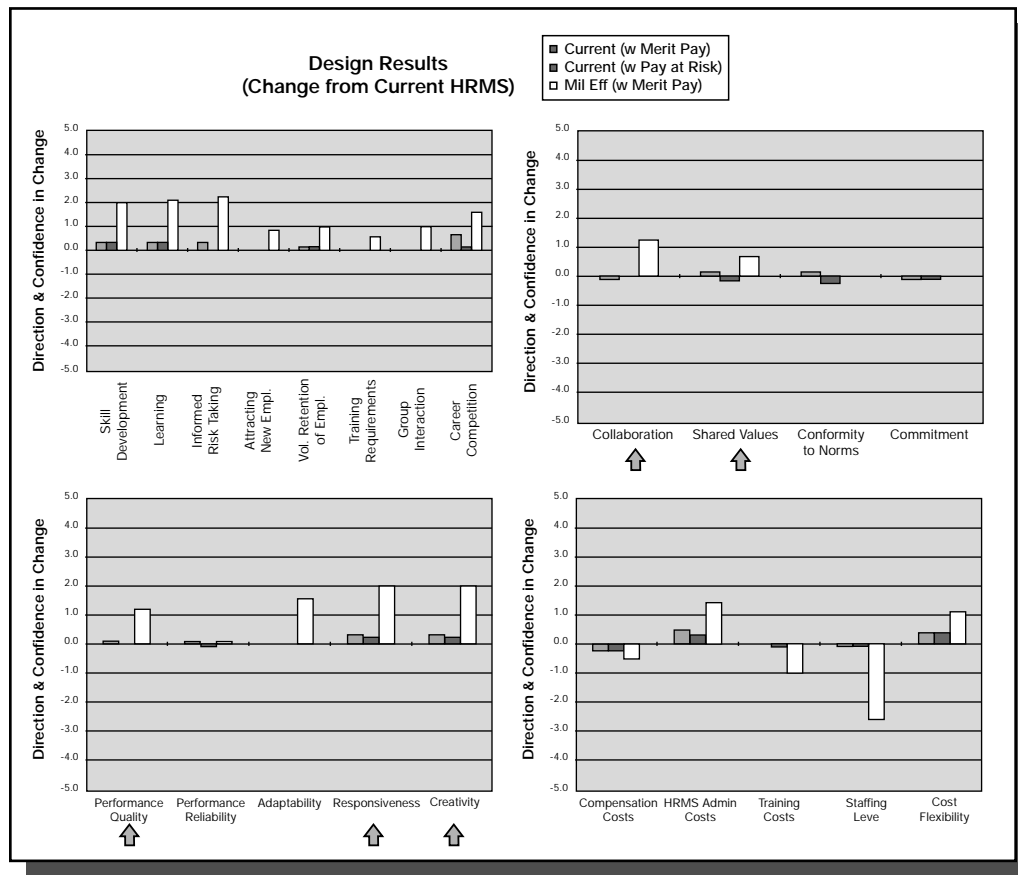


Figure 36 – Pay for Performance Outcomes

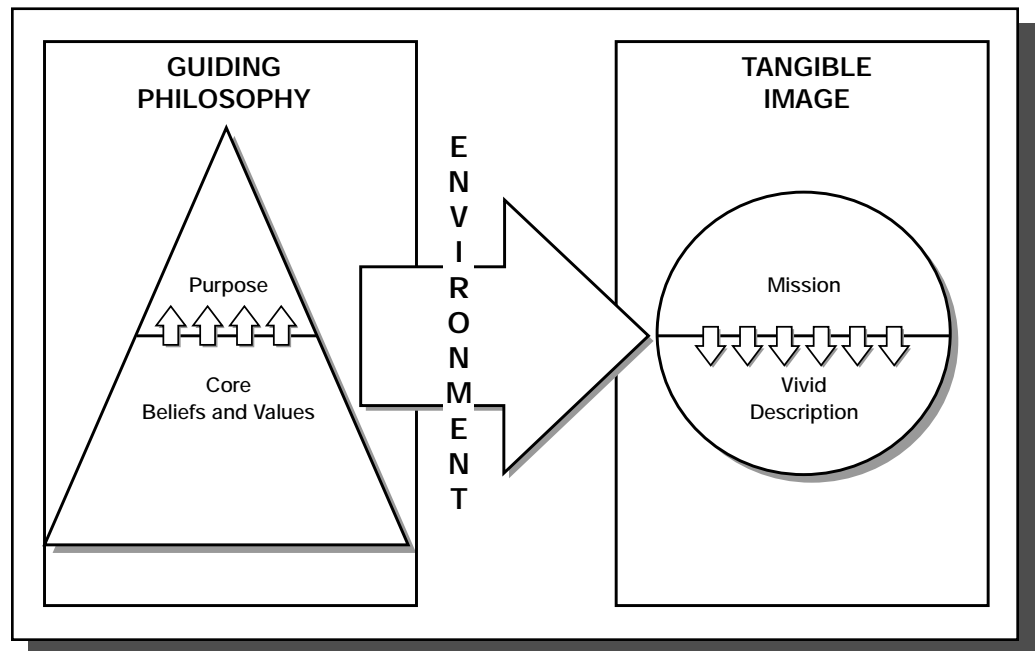
Although the changes to retention and to other, less quantifiable, organizational outcomes are modest, restructuring the pay table is an initial, gradual, but potentially very important step toward a human resource management system that would markedly improve the effectiveness of the uniformed services.

APPENDICES

APPENDIX I

VISIONING METHOD

This appendix describes and presents a tool – a worksheet – the 8th Quadrennial Review of Military Compensation used to focus dialogue during the visioning process. Developed after extensive research into visions and the visioning process, the worksheet records the definitions and characteristics of the key topics used in the visioning process as well as the framework used for thinking through – for imagining – an ideal future for human resource management outside the constraints of current reality.¹ It is based on a visioning method set forth by James C. Collins and Jerry I. Porras,² Graduate School of Business, Stanford University, and illustrated in Appendix Figure I-1.



Appendix Figure I-1 – The Stanford Visioning Method

The visioning method calls for an overall guiding philosophy – a foundation that preserves what is good about the organization; and a vivid tangible image of the organization in the future – goals and other mechanisms that motivate change toward

¹ Articulating a vision of something that does not yet exist is a highly abstract thinking process. Different authors and practitioners associate different definitions and characteristics with terms that are common in visioning and strategic planning, such as vision, mission, strategy, plans, and so forth. People engaged in the process must share a common vocabulary. Therefore, a critical first step is to agree on a set of definitions or criteria or characteristics for the major topics. A critical second step is to adopt a framework to guide deliberations.

² Collins and Porras (Fall 1991) and Collins and Porras (1994).

the desired image. This worksheet enables a visioning group to focus its thinking on specific aspects of the future of human resource management. Initially, members research the first topic, *visions*, in general – what they are, what they do for organizations and for people – and collect examples of organizational and functional visions.³

The group engages in intense, facilitated dialogue⁴ focused on the topics identified on each worksheet: *guiding philosophy, core beliefs and values, purpose, environment, tangible image, mission and vivid description*. Members record ideas in the blank spaces under each topic on the worksheets. They experiment with various techniques for collecting and sorting ideas in order to eventually agree on words that describe a shared mental image of each topic; they rely on the checklist of characteristics at the bottom of each worksheet to judge the ideas at the end of the dialogue. A visioning group generally progresses through the topics in the order presented – the first time through. The iterative thinking process causes the group to examine and reexamine the topics until they agree on sets of words that describe their shared mental image of each particular topic.

The vision of human resource management that emerged from this disciplined visioning process is firmly grounded in this framework, though the visual presentation looks different. The framework represented by this worksheet enabled members to focus thinking and dialogue, to absorb and process vast amounts of complex information, and to ultimately articulate a vivid word picture of their shared mental image – their shared *vision* of human resource management in the uniformed services in the 21st century. This worksheet represents one tool to guide the very abstract thinking required to formulate a vision.

Caution: Visioning is a highly abstract thinking process of imagining what an ideal future may look like outside the constraints of current reality. A worksheet, such as the one presented here, is simply a tool to focus dialogue; it is *not* the foundation of visionary thinking.

³ The method assumes group members possess extensive expertise about the organization or function.

⁴ The 8th QRMC adopted Peter Senge's concept of *dialogue*: "The purpose of dialogue is to go beyond any one individual's understanding. In dialogue, individuals gain insights that simply could not be achieved individually. . . . In dialogue, a group explores complex difficult issues from many points of view. Individuals suspend their assumptions but they communicate their assumptions freely. The result is a free exploration that brings to the surface the full depth of people's experience and thought, and yet can move beyond their individual views." Peter M. Senge, *The Fifth Discipline* (New York, NY: Doubleday Currency, 1990), p. 241.

8th Quadrennial Review of Military Compensation Visioning Worksheet

Vision

Characteristics:

- An ideal and unique image of the future.
- A picture of what we want to create.
- Big picture thinking.
- Based on values.

- Aligns the organization.
- Empowers people to change.
- Fosters risk-taking and experimentation. ⁵
- Creates the spark, the excitement that lifts an organization out of the mundane.
- Capitalizes on strategic advantages. ⁶

- Inspires. ⁷
- Exhilarates.
- Uplifts aspirations. ⁸
- Fosters genuine commitment and enrollment rather than compliance.

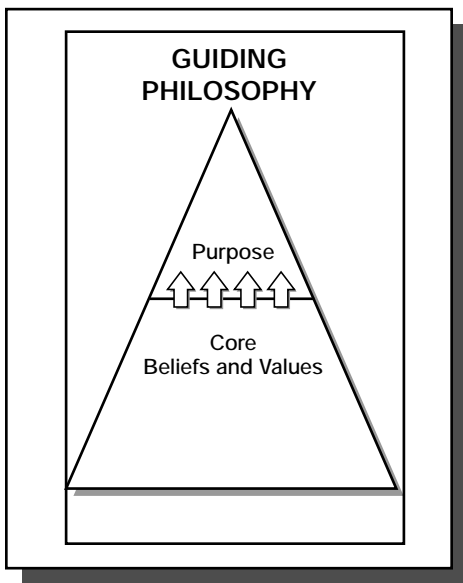
⁵ Senge, p. 207.

⁶ James A. Belasco, *Teaching the Elephant to Dance: Empowering Change in Your Organization* (New York, NY: Crown Publishers, 1990), p. 100.

⁷ Belasco, p. 99.

⁸ Senge, p. 207.

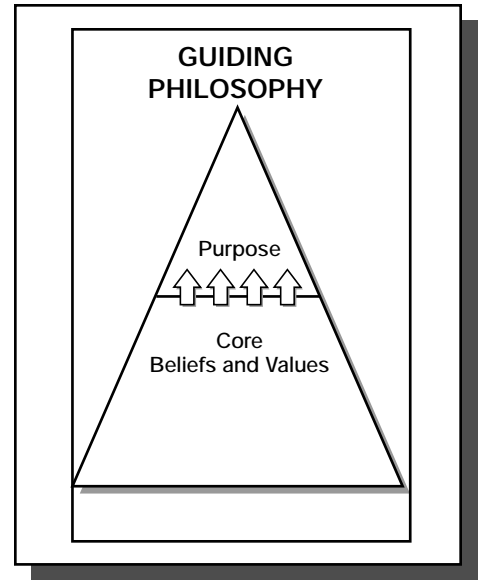
Guiding Philosophy



Characteristics:

- Resides in the background.
- Ever-present, but transparent (like air).
- Analogous to a biological organism’s “genetic code.”
- Deep and serene.
- Has the feel of a wide and powerful river – a never-ending source of strength.
- A system of fundamental motivating assumptions, principles, values and tenets.
- Shared mindsets, a uniform way of thinking and perceiving.

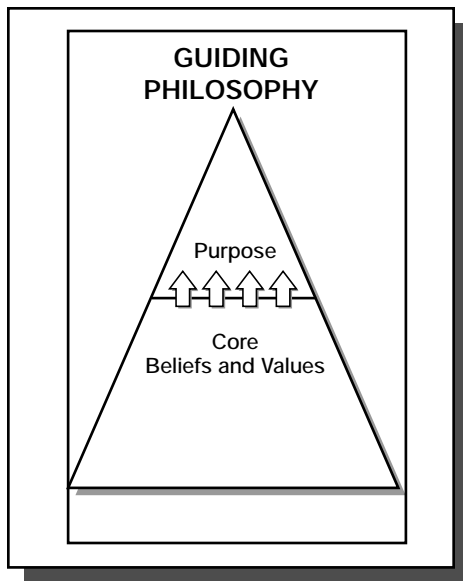
CORE BELIEFS AND VALUES



Characteristics:

- Deeply held in the guts of key individuals.
- Clear and authentic.
- Can be willing to change everything about HRM except these.
- Expectation that all HRM policies and practices must conform to or exhibit the value.
- A philosophical basis that guides decisions.
- Must be timeless.
- Establishes what is fundamentally important.
- The part that makes everything internally coherent.

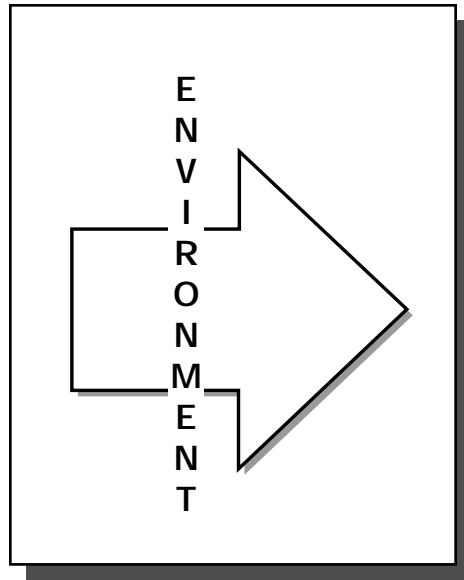
PURPOSE



Characteristics:

- The fundamental reason human resource management exists – its reason for being.
- Always worked towards, but never fully achieved.
- Broad, fundamental, inspirational and enduring.
- Generates long-term commitment to success.
- Taps people's idealistic efforts – rather than just describing output or target customers.
- Grabs and captures the “soul” of people in the organization.
- Meaningful and inspirational to people inside the organization; it need not be exciting to outsiders.
- Need not be unique, other organizations may articulate the same purpose.
Purpose is a motivating factor, not a differentiating factor.

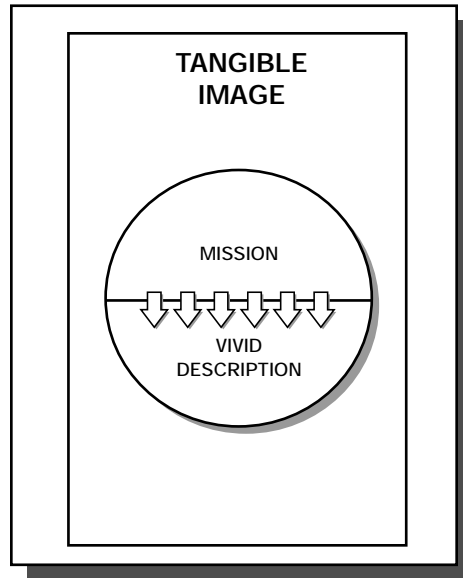
Environment



Characteristic:

- Serves a moderating role in the translation of Purpose into Mission.

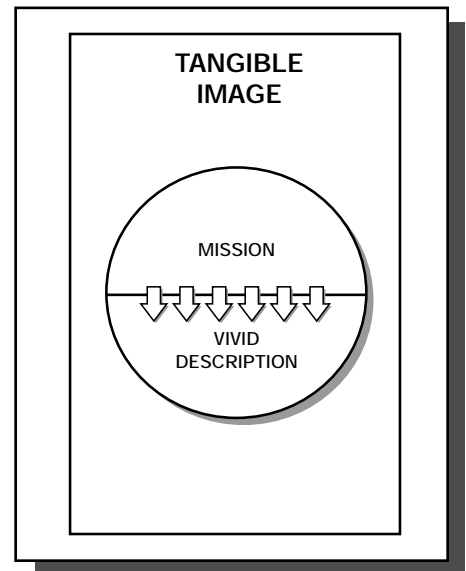
Tangible Image



Characteristics:

- Resides in the foreground.
- Rivets people’s attention on a specific goal.
- Bold, exciting, emotionally charged.
- Has the explosiveness of a lightening bolt.
- Plays a different role than “Guiding Philosophy.”

MISSION (“BIG, HAIRY, AUDACIOUS GOAL”)

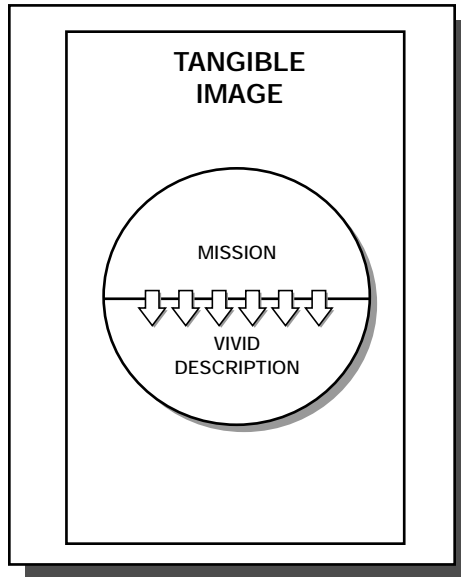


Characteristics:

- Clear and compelling overall goal that serves as a unifying focal point of effort.
- Translates the more abstract philosophy into a tangible, energizing, highly focused goal that pulls the human resource management function forward.
- Clearly rivets the human resource management function on what it wants to accomplish.
- Achievable, yet it stretches and challenges the human resource management function.
- Crisp, clear, engaging – reaches out and grabs people in the gut.
- People “get it” right away; takes little or no explanation.
- Has a finish line, a specific time frame for its achievement.
- Measurable – you know when you’ve done it based on achieving specified human resource outcomes and strategic subunit outcomes (desired organizational performance).
- Risky – falls in the gray area where reason says, “This is unreasonable,” and intuition says, “But we believe we can do it nonetheless.”
- Internally focused, riveted on internal dynamics and creating a certain environment within the organization.
- Directly affected by the internal environment – subunit organizational strategies.
- Indirectly affected by the external environment – timing, trends, technology and other external factors
- Proactive, not reactive.

Reminder: Strategy is subservient to mission, and strategic analysis should be done after – not during – the mission-setting process.

**VIVID DESCRIPTION (OF WHAT IT WILL BE LIKE WHEN THE
FUNCTION ACHIEVES ITS MISSION)**



Characteristics:

- Makes the mission alive and engaging.
- Portrays a yet unrealized picture of the future; a dream, hope or aspiration.
- Provokes emotion, passion.
- Generates excitement.
- Generates conviction.
- Transforms the mission from words into (word) pictures.
- Conveys the mission as a clear, compelling image in people's minds.

APPENDIX II

DoD AND SERVICE VISIONS

In January 1996, the 8th QRMC reviewed official documents published by the Department of Defense and the military services and met with selected service officials to better understand their core values and beliefs as well as their views regarding the future. The following is a summary of these views.

Vision of the Department of Defense

Guiding Philosophy

Purpose

Protect and advance the Nation's interests throughout the world. ¹

Core Values and Beliefs

- Three components of the national *security* strategy: enhance security, promote prosperity at home, promote democracy. ²
- Overall military objectives are to promote stability and thwart aggression. ³
- Three components of the national *military* strategy: peacetime engagement, deterrence and conflict prevention, fight and win. ⁴
- Personnel focus on current and long-term readiness, quality of life, jointness, mutual respect and integrity issues. ⁵

Environment

We live amid four revolutions. First, the revolution in military affairs is affecting the kinds of people we should be thinking about for the future. If the future is on an exponential curve, what are we doing at the lower end of it? Second, we are experiencing a revolution in the completely joint nature of what we do. People who were not with us ten years ago wouldn't appreciate the joint, differently organized military

¹ William J. Perry, U.S. Secretary of Defense, *Annual Report to the President and the Congress* (Washington, DC: U.S. Government Printing Office, February 1995).

² President of the United States of America, *A National Security Strategy of Engagement and Enlargement* (Washington, DC: U.S. Government Printing Office, July 1994), p. 5.

³ U.S. Joint Chiefs of Staff, *National Military Strategy of the United States of America* (Washington, DC: Joint Chiefs of Staff, February 1995), pp. 4-5.

⁴ U.S. Joint Chiefs of Staff, *National Military Strategy of the United States of America*, pp. 8-16.

⁵ U.S. Department of Defense, *Defense Planning Guidance, FY1997-2001*, May 1995.

of today. Third, in the budget – it is down by 45 percent and out of balance ([about 50] percent is fixed personnel costs). Understanding that imbalance is very important as we look at our most precious asset, people. Fourth, in the world – today we don't know what we're facing in the future. We are no longer planning the strategy of the Central Front as was the case for 40 years. To have our own revolution in response to these four factors, we need the courage to institute it at all levels. Our young people around the world face a challenge to be sophisticated beyond their years.⁶ America's future will be “marked by rapid change, diverse contingencies, limited budgets, and a broad range of missions to support evolving national security policies.”⁷

Tangible Image of the Future

Mission

Traditional approaches to roles and missions issues are no longer appropriate. Today, it is clear that the emphasis must be on molding the Department of Defense into a cohesive set of institutions that work toward a common purpose – effective unified military operations – with the efforts of all organizations, processes and systems focused on that goal from the very beginning.⁸

Vivid Description

The Commission on Roles and Missions identified six attributes of a successful Department of Defense in the future and recommendations to encourage the development of these attributes. These recommendations⁹ are designed to:

- Improve the ability of the Secretary of Defense to provide unified strategic and programmatic direction to DoD.
- Expand the role of the Chairman and Vice Chairman of the Joint Chiefs of Staff and the CINCs in ensuring better joint doctrine, training, weapons planning and support.
- Focus the military departments on providing the right mix of capabilities for unified military operations.
- Improve capabilities to deal with new challenges of the post-Cold War world.
- Reduce the cost of the support infrastructure through outsourcing and better management – while increasing responsiveness to the needs of the CINCs.

The six attributes of a successful Department of Defense in the future – as stated in the Report of the Commission on Roles and Missions¹⁰ – are:

⁶ Admiral Owens, Vice Chairman, Joint Chiefs of Staff, Forum on Strategic Human Resource Management, February 14, 1996.

⁷ Commission on Roles and Missions of the Armed Forces, p. 1-1.

⁸ Commission on Roles and Missions of the Armed Forces, p. 1-2.

⁹ Commission on Roles and Missions of the Armed Forces, p. ES-2.

¹⁰ Commission on Roles and Missions of the Armed Forces, p. ES-2.

- *Responsiveness* to requirements that change over time – sometimes rapidly.
- *Reliability* in delivering predictable, consistent performance.
- *Cooperation and trust*, the *sine qua non* of unified operations.
- *Innovation* in new weapons, organizations and operational concepts.
- *Competition* directed toward constructive solutions to complex problems.
- *Efficiency* in the use of resources.

Vision of the Army

Guiding Philosophy

Purpose

The Army's fundamental purpose is to maintain trained and ready forces capable of responding to a wide range of crises.¹¹

Core Values and Beliefs

- Maintain the Nation's peace and freedom with quality soldiers, leadership skill and warfighting competence.¹²
- The Army exists to protect and defend the U.S. Constitution . . . by deterring war, and when deterrence fails, by achieving quick, decisive victory on the battlefield anywhere in the world under virtually any conditions.¹³
- Land Force Dominance through five modernization objectives: project and sustain, protect the force, win the information war, conduct precision strike, and dominate the maneuver battle.¹⁴
- The Army exists to serve the Nation.¹⁵
- Core values are courage, candor, competence, and commitment¹⁶
- Army people values are respect for the individual, selfless service, dedication to freedom, devotion to team, integrity, courage, and competence.¹⁷

¹¹ U.S. Department of the Army, *FM 100-1, The Army* (Baltimore, MD: U.S. Army Publications Center, December 1991), p. 11.

¹² U.S. Department of the Army, *FM 100-1*, pp. 11-13.

¹³ U.S. Department of the Army, *FM 100-1*, p. 3.

¹⁴ U.S. Secretary of the Army, *FY1997-2001 Program Objective Memorandum* (Washington, DC: Secretary of the Army, June 1995).

¹⁵ U.S. Department of the Army, FY94 Army Posture Statement.

¹⁶ U.S. Department of the Army, *FM 100-1*, p. 17.

¹⁷ Office of the Assistant Secretary of the Army (Manpower and Reserve Affairs). *Army People Vision*. March 1994.

Environment

In the 21st century, the competitive advantage – the quantum competitive advantage – will derive from the quantity, quality and usability of information.¹⁸

Tangible Image of the Future

Mission

The reconceptualization and redesign of the Force at all echelons, from the foxhole to the industrial base¹⁹ by 2010.²⁰

Vivid Description

“The Army has a vision . . . America’s Army, trained and ready, a strategic force, serving the Nation – at home and abroad, capable of decisive victory . . . into the 21st century.”²¹ Today, the Army organizes the division around killing systems, feeding the guns. Force XXI must be organized around information - the creation and sharing of knowledge followed by unified action based on that knowledge, which will allow commanders to apply power effectively.²² The reconceptualization and redesign of the force will occur through the use of battle lab experiments (Focused Dispatch, Roving Sands, Warrior Force, Prairie Warrior, etc.) . . . to refine and establish the operational concepts for Force XXI.²³

Vision of the Navy

Guiding Philosophy

Purpose

Most fundamentally, naval forces are designed to fight and win wars. However, the most important role of naval forces in situations short of war is to be engaged in forward areas, with the objectives of preventing conflicts and controlling crises.²⁴

Core Values and Beliefs

- Fundamental Roles: projecting power from sea to land, sea control and maritime supremacy, strategic deterrence, strategic sealift, and forward presence.²⁵

¹⁸ General Gordon R. Sullivan, “Building the Force for the 21st Century – Force XXI,” Chief of Staff of the Army’s Remarks, March 1994. Text located at <<http://204.7.227.75:443/lamhome/mission.mission.html>>, December 1995, p. 2.

¹⁹ Sullivan, p. 1.

²⁰ Klevecz (February 6, 1996).

²¹ U.S. Secretary of the Army, *FY1997-2001 Program Objective Memorandum*.

²² Sullivan, p. 2.

²³ Klevecz (February 6, 1996).

²⁴ U.S. Department of the Navy, *Forward . . . from the Sea*, (Washington, DC: Department of the Navy, 1994), p. 1.

²⁵ U.S. Department of the Navy, *Forward . . . from the Sea*, p. 10.

- Core values: honor, commitment, and courage.²⁶
- Foundation of values for the officer corps: integrity, teamwork, equal opportunity, and respect for human dignity.²⁷

Environment²⁸

- Highly constrained budgets – over the last decade projections have constantly erred on the side of optimism. Navy funding is unlikely to increase in the out-years.
- Uncertain future – long-range implications are often overlooked in the PPBS cycle, but
 - The U.S. will continue to have vital interests abroad.
 - A number of potential conflicts could erupt to threaten U.S. interests abroad.
 - The U.S. will be engaged in the world and have an interest in shaping the peace.
 - American leaders will probably be highly selective in using the military as an instrument of foreign policy.
- Wide range of threats
 - Variety of unconventional threats (terrorists, guerrilla warfare, WMD, hostage taking and paramilitary forces).
 - Expanded sea denial threats (mines, cruise missiles, submarines).
 - Certain high-technology threats (advanced tactical aircraft, missiles and submarines).
 - Possible revolutionary breakthrough in military technology.

Tangible Image of the Future

Mission

The new direction for the Naval Service remains focused on the ability to project power from the sea in the critical littoral regions of the world.²⁹

²⁶ “A Proud Tradition: The United States Navy,” *All Hands*, June 1996, p. 23.

²⁷ Admiral Charles R. Larson, “Service Academies: Critical to Our Future,” *U.S. Naval Institute Proceedings*, Vol. 121, Iss. 10 (October 1995), pp. 34-35.

²⁸ Strategy and Concepts Branch (N513), “Shaping the Force for 2015 . . . and Beyond,” Briefing, August 1995.

²⁹ U.S. Department of the Navy, *Forward . . . from the Sea*, p. 8.

Vivid Description

The Naval Service has an expeditionary focus. “Expeditionary” implies a mind set, a culture, and a commitment to forces that are designed to be deployed forward and to respond swiftly. The new direction provides the Nation with naval expeditionary forces, shaped for joint operations, tailored for national needs, operating forward . . . from the sea.³⁰

Vision of the Marine Corps

Guiding Philosophy

Purpose

The Marine Corps shall be organized, trained and equipped to provide fleet marine forces of combined arms, together with supporting air components, for service with the fleet in the seizure or defense of advanced naval bases and for the conduct of such land operations as may be essential to the prosecution of a naval campaign.³¹

Core Values and Beliefs

Five pillars that represent the most strongly held beliefs:³²

- **Warfighting:** The Marine Corps is a “force in readiness.” It is a force of choice in war and peace: America’s legion – expeditionary, tough, Spartan, faithful, disciplined, and versatile. It will continue to live by the creed that every Marine is a rifleman. It exists to fight and win, but it does more. Marines are unique. They are an air/ground/logistics team: highly mobile, lightly armored, lethal and technologically advanced.
- **People:** Marines embody the American spirit: patriotic and selfless. Committed to the ideals of the Founding Fathers, they are proud – exemplary – visible. They respect and take care of each other. Leadership at every level, though disciplined and tough, is compassionate, embracing a parental “teacher-scholar” philosophy.
- **Core values:** honor, courage, and commitment are the very soul of the institution.³³

³⁰ U.S. Department of the Navy, *Forward . . . from the Sea*, p. 8.

³¹ General Charles C. Krulak, *The 31st Commandant’s Planning Guidance, A Marine Corps for the 21st Century*, (Washington, DC: Marine Corps Association, August 1995), p. A-1.

³² General Charles C. Krulak, “A Marine Corps for the 21st Century,” presentation to Marine Corps, Washington, DC, July 7, 1995, (Text of speech in ALMAR 191/95, “Commandants’s Intent,” July 1, 1995).

³³ General C. E. Mundy, Jr., Commandant of the Marine Corps, *Commandant’s Statement on Core Values of United States Marines*, undated.

- Education and training: The Corps values the unique contribution that every Marine provides. Individual growth is encouraged and nourished; therefore, the training and education of Marines are paramount. Trust abides at every level. Our word is our bond. They are always faithful and breaking this faith is unthinkable. They encourage initiative and the shift of authority downward, understanding that to err is human, and growth comes from allowing Marines to learn from their mistakes.
- Naval Character: The Marine Corps is a key element of the Nation's naval power. It operates forward as integral elements of potent and flexible naval expeditionary forces. It fights as part of the Nation's armed forces team. It is amphibious – soldiers of the sea.

Environment

The future world will be characterized by crisis and conflict. It will place heavy demands on its military services, demands that will require deep reservoirs of military skill, intellect and innovation. The uncertain horizon creates an even more pressing imperative for a military force that can act decisively in the face of such uncertainty – a force that anticipates change and adapts to new reality quickly and surely.

Tangible Image of the Future

Mission

The Marine Corps will be recognized, not just in the United States, but globally, as the premier crisis response force.³⁴

Vivid Description

The Marine Corps will be first on the scene, first to fight, first to quell disturbances, and first to help. The Marine Corps will be our Nation's force of choice – a certain force for an uncertain world. It will be a learning force – able to anticipate and adapt quickly to any change. And, as it has always been, it will be an economical force – able to get more out of less. The foundation upon which it will build this superb armed force is the world's finest military professional – a disciplined, motivated, dedicated warrior – a smarter, stronger Marine, imbued with the values that have served the Nation well throughout its history, and infused with the agility of mind and body that will be required in future conflict.³⁵

³⁴ Krulak (August 1995), p. A-2.

³⁵ Krulak (August 1995), pp. A-2 - A-3.

Air Force Vision

“Air Force people building the world’s most respected Air and Space force . . . global power and reach for America.”³⁶

Guiding Philosophy

Purpose

To defend the United States through control and exploitation of air and space.³⁷

Core Values and Beliefs

Integrity first, service before self, and excellence in all we do.³⁸

Environment

- The events of 1991 – from the Persian Gulf War to the end of the Cold War – reaffirmed, yet refined, the context within which America’s global leadership is conducted. For the 1990s and beyond – as for much of this century – there will be no substitute for American leadership.
- To support this leadership, American military forces must find the right balance of complementary roles, functions and force structure for a new security environment.
- The new definition of global engagement focuses on countering regional hotspots and on preserving collective security in a fragmented world.³⁹
- It is time for the Air Force to “take some bearings” on where it is and what its priorities ought to be for the coming years. This is an unusual time in our history because it offers a chance at a period of relative stability given that the drawdown is largely over and that the United States faces no direct threats to our national security.⁴⁰

³⁶ U.S. Department of the Air Force, *Global Engagement: A Vision for the 21st Century Air Force* (Washington, DC: U.S. Department of the Air Force, 1996), inside cover.

³⁷ U.S. Department of the Air Force, *Global Engagement: A Vision for the 21st Century Air Force*, inside cover.

³⁸ U.S. Department of the Air Force, *Global Engagement: A Vision for the 21st Century Air Force*, p. 3.

³⁹ U.S. Department of the Air Force, *Global Reach, Global Power: The Evolving Air Force Contribution to National Security* (Washington, DC: U.S. Department of the Air Force, December 1992), p. 2.

⁴⁰ General Ronald R. Fogleman; cited in John A. Tirpak, “The Air Force Today and Tomorrow,” *Air Force Magazine*, January 1996, p. 22.

Tangible Image of the Future

Mission

- Institutionalize long-range, strategic planning in the Air Force to assist the senior leadership in making strategic decisions that will define the “Air Force after next.”⁴¹
- Maintain the forces the Nation will need to deal with residual or emerging threats around the globe. Create, steadily and affordably, the backbone of the forces to after the year 2000.⁴²

Vivid Description

- The implementation of an Air Force process that integrates innovative thinking, develops a coherent, strategic vision for the 2025 time frame, and charts actionable courses to that future.
- A strategic vision document that considers the full range of future concepts, including innovative technologies, organizational and business practices, and future environments.⁴³
- In an age of uncertainty, with the location of direction of future challenges almost impossible to predict, space forces allow us to monitor activities around the world and to the battlefield even before our forces arrive. With smaller forces overall and fewer deployed overseas, airpower’s ability to respond around the globe – within hours, with precision and with effect – is an invaluable capability that is America’s alone.⁴⁴

⁴¹ General Ronald R. Fogleman and Honorable Sheila E. Widnall, Secretary of the Air Force, Charter, Special Assistant to the CSAF for Long-Range Planning, undated.

⁴² U.S. Department of the Air Force, *Global Reach, Global Power: The Evolving Air Force Contribution to National Security*, p. 14.

⁴³ Fogleman and Widnall.

⁴⁴ U.S. Department of the Air Force, *Global Reach, Global Power: The Evolving Air Force Contribution to National Security*, p. 2.

APPENDIX III

OTHER DESIGN PROCESSES

Little specific information on processes to design an integrated human resource management system was found. Most of the literature reviewed, to the extent it touched on processes at all, discussed them in terms of how to design compensation systems. These compensation system processes were either too specific or were written at a conceptual level not directly applicable to the design of an entire human resource management system. However, the literature did stimulate thinking and introduced some helpful frameworks. A common theme of the literature is that elements of the system must be aligned with the organization's strategy and among themselves if the organization is to maximize performance. The following are contributions from various sources used in developing the process described in this report.

Lawler

The writings of Edward E. Lawler III, of the Center for Effective Organizations at the University of Southern California, were particularly helpful in providing a framework within which to work through the difficult challenge of developing a design process. Much of Lawler's work ¹ has focused on compensation issues; more recently, he has emphasized the need to broaden consideration to human resource management, generally.

In *Strategic Pay* (one of his most influential books), Lawler lays out a framework for a compensation system designed to support the organization's strategy and culture, stressing the need to align an organization's compensation system with its strategy. He asserts, "[T]he challenge is to develop pay programs that support and reinforce the business objectives of the organization and the kind of culture, climate, and behaviors that are needed for the organization to be effective." ² One might infer that organizations can improve their effectiveness further by using the entire human resource management system to reinforce its business objectives, culture, climate, and behaviors.

Strategic Pay discusses a design process for compensation systems – specifically, paying for performance, determining base pay, administering pay systems and applying various compensation strategies. The design process begins by determining the organization's strategy for achieving a competitive advantage. This determination allows the organization to focus on the individual and organizational behaviors it wants to emphasize and encourage via the compensation system. His process is summarized below. ³

¹ Lawler (1990).

² Lawler (1990), p. 11.

³ Lawler (1990), pp. 13-52.

- Use compensation systems to achieve strategic objectives by influencing the individual and how the individual interacts with the organization.
- Compensation systems and the individual.
 - Identify measurable performance that reinforces the strategic objectives of the organization.
 - Identify valued rewards that motivate performance.
 - Relate rewards to performance so that rewards are seen by individuals as directly connected to their performance.
 - Set performance goals that individuals feel are achievable.
 - Apply motivation and punishment in a judicious manner – that is, no matter how attractive a particular reward might be, if the punishment for failing to achieve the level of performance required for the reward is considered severe, few individuals will be motivated to seek the reward.
 - Motivate skill and knowledge development via the compensation system that develops the right skill mix at all levels in the organization.
 - Foster attraction and retention by offering the most valued rewards compared to other organizations.
- Compensation systems and the organization.
 - Influence organizational structure through the reward system to emphasize either integration of or differentiation between work groups within the organization.
 - Shape organizational culture by using rewards to cause beliefs to develop about what is rewarded, what is valued, how fair the organization is, how open the organization is and how people are treated.
 - Meet cost objectives strategically by attempting to minimize labor costs relative to both the volume and quality of the products or services produced and relative to the competition.
- Establish core design principles that apply to all elements of the human resource management system.
 - Manage beliefs through considered communications in ways that produce the desired organizational behaviors.
 - Develop core principles based on the organization's strategy and core values.
 - Address key principle issues (a partial, but critical list).

- ≈ Pay for performance.
- ≈ Basis for pay (namely, job-based versus skill-based).
- ≈ Market comparisons (relative to similar organizations).
- ≈ Internal comparisons (among individuals doing similar work).
- ≈ Benefits.
- ≈ Process issues (how openly and freely can employees discuss pay issues among themselves).
- ≈ Due process (namely, internal review and appeal processes).
- Ensure fit between core principles and practices (how well the principles are executed).

Muczyk

Muczyk ⁴ does not directly address a process for designing an integrated human resource management system. However, he emphasizes the need for congruence among organizational culture, the organization's strategy, employee performance, rewards and compensation strategies. This congruence is not only fundamental to appropriately designed compensation systems but is fundamental to integrated human resource management systems as well. Muczyk states, "[T]here needs to be congruence between goals that organizations seek, strategies that are most likely to attain these goals, cultures that support these strategies, and reward systems that elicit and maintain behaviors that are consonant with the appropriate competitive strategy and its supporting culture." ⁵

He discusses of work cultures, particularly the "instrumental (hedonistic) nature" of the American work culture, as contrasted with the "normative nature" of the Japanese work culture (similar in many ways to the work culture of the uniformed services). Understanding the work culture in which an organization operates is essential for designing both compensation and human resource management systems effectively. Muczyk stresses the need for organizations to recognize the "motivational threshold of incentives." The importance here lies in establishing a strong connection between performance and rewards. Furthermore, this connection can not be established without first creating reliable and valid performance appraisals.

Muczyk completes his article with an in-depth discussion on matching compensation systems with competitive strategies and supporting cultures. He walks through each of three competitive strategies, using illustrative examples, explaining the most effective compensation mixes for each strategy as it pertains to various organizational cultures.

⁴ Muczyk, pp. 225-239.

⁵ Muczyk, p. 225.

Schuster and Zingheim

Schuster and Zingheim ⁶ discuss a proposed shift from what they describe as “traditional pay” to “new pay.” They outline the “whys” and “hows” of designing new pay strategies. Their underlying theme is to develop new pay systems aligned to “business, financial, and human resource goals.” ⁷ In particular, they offer descriptions of policies and practices tied to particular strategies of the organization. “New pay requires an alignment between what the organization wants done and the role total compensation plays in helping the organization and employees win together.” ⁸ It is also worthy to note that the authors’ book contains a very useful appendix entitled “Guide to Total Compensation Strategy Development,” which outlines a set of questions, by category, that can be used as a process for describing a “new pay” compensation system. The guide’s categories are: ⁹

- The strategic role of employee compensation – addresses the role the organization believes total employee compensation *should* play in attaining the organization’s goals and objectives.
- Role of employee involvement – addresses the issue of employee involvement in direct and indirect compensation decisions that affect them.
- Strategy concerning direct compensation – addresses both base and variable pay.
- Strategy concerning indirect compensation – addresses indirect pay or benefits.

Turnasella

Turnasella, ¹⁰ like many of the other authors, addresses compensation issues rather than human resource management issues. Turnasella’s main idea is to link an organization’s compensation policies to its strategy. He stresses the need for the compensation system to communicate the proper message to employees about what behaviors, values and roles the organization desires from its employees. “Strategic pay plans need to align pay with both the company’s business strategy and the values and expectations of the employees.” ¹¹ He defines what he calls the four basic components of pay: base pay, experience pay, results-based variable pay and behavior-based variable pay. He discusses each component of compensation in terms of four factors to consider: compensation dynamic, expectations, objectives and message potential. He also outlines how to build a compensation plan based on the process shown below. ¹²

⁶ Jay R. Schuster and Patricia K. Zingheim, *The New Pay: Linking Employees and Organizational Performance* (New York, NY: Macmillan, 1992).

⁷ Schuster and Zingheim, p. 30.

⁸ Schuster and Zingheim, p. 58.

⁹ Schuster and Zingheim, pp. 317-323.

¹⁰ Ted Turnasella, “Aligning Pay with Business Strategies and Cultural Values,” *Compensation and Benefits Review*, September-October 1994, pp. 65-72.

¹¹ Turnasella, p. 72.

¹² Turnasella, pp. 70-72.

- Define basic employee groups based on their values, compensation needs and skills.
- Define a strategic role for each basic employee group.
- Determine the appropriate total compensation for each employee group.
- Determine base pay levels.
- Determine the role of experience pay.
- Design and implement variable pay plans where appropriate.

Fuehrer

Fuehrer also describes a process for designing a total reward strategy rather than for designing an integrated human resource management system. However, her work has a helpful focus on aligning people's skills, behaviors, needs and desires with management's strategies in order for the organization to realize an increase in organizational performance and effectiveness. Specifically, her process includes: ¹³

- Establish a total reward philosophy.
- Define the categories of performance or productivity outcomes or both.
 - Define key result areas.
 - Identify behaviors to help employees be successful.
 - Define strategic objectives.
- Determine required skill sets.
- Develop specific reward system approaches.
 - Define objectives for each reward system.
 - Develop a strategy for each reward element.

Gubman

Gubman ¹⁴ offers a process to align human resource practices with business strategy. He states, "For a company to be successful, human resources must align the company's people strategies and management processes with its business strategies. This is the critical task facing human resource functions today." ¹⁵ He begins his process by stressing the need for choosing one of three "value disciplines," which is a term used to classify business strategies from the customers' definition of value. ¹⁶ These value disciplines are similar to organizational strategies. The rest of the process is as follows: ¹⁷

¹³ Vicki Fuehrer, "Total Reward Strategy: A Prescription for Organizational Survival," *Compensation and Benefits Review*, January-February 1994, pp. 45-50.

¹⁴ Edward L. Gubman, "Aligning People Strategies with Customer Value," *Compensation and Benefits Review*, January-February 1995, pp. 15-22.

¹⁵ Gubman, p. 15.

¹⁶ Gubman, p. 16.

¹⁷ Gubman, pp. 16-19.

- Match value disciplines and people requirements.
- Develop people strategies.
- Ensure a good fit between human resource systems and the value discipline chosen.

Flannery, Hofrichter and Platten

Flannery, Hofrichter and Platten emphasize the necessity of properly aligning “pay strategies with . . . constantly evolving culture, values, and business strategies”¹⁸ to increase organizational performance. The authors outline four work cultures and address how to design compensation systems that are aligned with their respective culture.

The *functional* culture is described as an older, more traditional work culture in which individuals perform narrowly defined tasks. They are rewarded for reliable performance over time, primarily via base salary. The *process* culture is focused on groups and teams, rewarded for quality and customer service. The authors suggest using broad salary ranges to “recognize the natural and obvious differences in work and jobs, while at the same time minimizing the distinctive specializations within a team.”¹⁹ *Time-based* cultures exist to “create project teams that can develop, build, and/or market new products and services, reengineer costs out of existing products and services, and continually decrease cycle time.”²⁰ Therefore, competency-based broadbanding pay systems are used to reward individuals for their skills and specialties, as well as to reward the development of team competencies. Some process and time-based cultures eventually evolve into *network* cultures, which require more dramatic changes to their compensation systems. These cultures are composed of individuals who already possess finely honed technical skills and competencies, so that there is little need for benefits or other long-range components in their pay. These individuals often negotiate their compensation packages, which typically contain a sizable base salary and long-term incentives based on the successful performance of the organization. As organizations evolve from one culture to another, “[t]he key is at all times to keep a foot in both camps – where you are today, and where you want to be tomorrow.”²¹

¹⁸ Flannery, Hofrichter and Platten, p. 253.

¹⁹ Flannery, Hofrichter and Platten, p. 134.

²⁰ Flannery, Hofrichter and Platten, p. 138.

²¹ Flannery, Hofrichter and Platten, p. 143.